CNB FINANCIAL CORP/PA
Form 10-Q
November 06, 2014
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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, 2014

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. (Check one):

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 3, 2014

COMMON STOCK NO PAR VALUE PER SHARE: 14,369,049 SHARES

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PART I.

FINANCIAL INFORMATION

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Forward-Looking Statements

The information below 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, plans, targe potentially, probably, projects, outlook or similar expressions or future conditional verbs such as may, will, should, would and co 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; and (xvi) other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices. Some of these and other factors are discussed in our annual and quarterly reports filed with the Securities and Exchange Commission. 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.

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Part I Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

	(unaudited) September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 26,069	$ 25,769
Interest bearing deposits with other banks	3,328	3,864
Total cash and cash equivalents	29,397	29,633
Interest bearing time deposits with other banks	225	275
Securities available for sale	699,366	685,991
Trading securities	4,440	4,127
Loans held for sale	1,290	487
Loans	1,330,580	1,299,259
Less: unearned discount	(4,205)	(3,896)
Less: allowance for loan losses	(17,843)	(16,234)
Net loans	1,308,532	1,279,129
FHLB and other equity interests	8,491	7,533
Premises and equipment, net	33,506	31,589
Bank owned life insurance	34,505	33,804
Mortgage servicing rights	897	904
Goodwill	27,194	27,194
Core deposit intangible	3,677	4,583
Accrued interest receivable and other assets	21,454	26,040
Total Assets	$ 2,172,974	$ 2,131,289
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 245,914	$ 221,293
Interest bearing deposits	1,620,950	1,614,021
Total deposits	1,866,864	1,835,314
FHLB and other long-term borrowings	75,777	75,000
Other short-term borrowings	8,100	12,950
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	19,996	22,494
Total liabilities	1,991,357	1,966,378
Common stock, $0 par value; authorized 50,000,000 shares; issued 14,473,482 shares	0	0
Additional paid in capital	77,892	77,923
Retained earnings	106,252	97,066

Treasury stock, at cost (105,069 shares at September 30, 2014 and 45,702 shares at December 31, 2013)	(1,742)	(633)
Accumulated other comprehensive loss	(785)	(9,445)
Total shareholders equity	181,617	164,911
Total Liabilities and Shareholders Equity	$ 2,172,974	$ 2,131,289

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Three months ended September 30, 2014	Three months ended September 30, 2013
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 17,146	$ 13,153
Securities:		
Taxable	3,340	3,283
Tax-exempt	941	969
Dividends	105	60
Total interest and dividend income	21,532	17,465
INTEREST EXPENSE:		
Deposits	2,081	1,673
Borrowed funds	825	949
Subordinated debentures (includes $95 and $102 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2014 and 2013, respectively)	186	195
Total interest expense	3,092	2,817
NET INTEREST INCOME	18,440	14,648
PROVISION FOR LOAN LOSSES	1,038	846
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,402	13,802
NON-INTEREST INCOME:		
Wealth and asset management fees	710	615
Service charges on deposit accounts	1,198	1,102
Other service charges and fees	762	607
Net realized gains on available-for-sale securities (includes $41 and $0 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2014 and 2013, respectively)	41	0
Net realized and unrealized gains (losses) on trading securities	(59)	166
Mortgage banking	144	107
Bank owned life insurance	222	365
Other	478	286
Total non-interest income	3,496	3,248
NON-INTEREST EXPENSES:		
Salaries and benefits	6,562	5,288
Net occupancy expense	1,695	1,234
Amortization of core deposit intangible	302	0
Data processing	999	890
State and local taxes	461	391
Legal, professional, and examination fees	409	313
Advertising	368	205
FDIC insurance premiums	342	332

Merger costs	0	398
Other	2,012	1,292
Total non-interest expenses	13,150	10,343
INCOME BEFORE INCOME TAXES	7,748	6,707
INCOME TAX EXPENSE (includes ($19) and ($36) income tax expense from reclassification items in 2014 and 2013, respectively)	2,200	2,004
NET INCOME	$ 5,548	$ 4,703
EARNINGS PER SHARE:		
Basic	$ 0.39	$ 0.38
Diluted	$ 0.39	$ 0.38
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.165	$ 0.165

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Nine months ended September 30, 2014	2013
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 51,300	$ 37,736
Securities:		
Taxable	10,030	10,166
Tax-exempt	2,777	2,891
Dividends	280	134
Total interest and dividend income	64,387	50,927
INTEREST EXPENSE:		
Deposits	6,230	5,862
Borrowed funds	2,436	2,557
Subordinated debentures (includes $287 and $304 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2014 and 2013, respectively)	558	583
Total interest expense	9,224	9,002
NET INTEREST INCOME	55,163	41,925
PROVISION FOR LOAN LOSSES	3,558	4,891
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	51,605	37,034
NON-INTEREST INCOME:		
Wealth and asset management fees	2,135	1,727
Service charges on deposit accounts	3,384	3,063
Other service charges and fees	2,000	1,561
Net realized gains on available-for-sale securities (includes $245 and $328 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2014 and 2013, respectively)	245	328
Net realized and unrealized gains on trading securities	15	497
Mortgage banking	502	633
Bank owned life insurance	701	1,442
Other	1,233	839
Total non-interest income	10,215	10,090
NON-INTEREST EXPENSES:		
Salaries and benefits	19,840	15,817
Net occupancy expense	5,216	3,832
Amortization of core deposit intangible	906	0
Data processing	2,943	2,455
State and local taxes	1,477	1,266
Legal, professional, and examination fees	1,153	966
Advertising	1,110	697
FDIC insurance premiums	1,026	930

Merger costs	0	1,329
Other	5,348	3,526
Total non-interest expenses	39,019	30,818
INCOME BEFORE INCOME TAXES	22,801	16,306
INCOME TAX EXPENSE (includes ($15) and $8 income tax expense from reclassification items in 2014 and 2013, respectively)	6,470	4,355
NET INCOME	$ 16,331	$ 11,951
EARNINGS PER SHARE:		
Basic	$ 1.13	$ 0.96
Diluted	$ 1.13	$ 0.96
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.495	$ 0.495

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

Dollars in thousands

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
NET INCOME	$ 5,548	$ 4,703	$ 16,331	$ 11,951
Other comprehensive income (loss), 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 ($20) and and $31 for the three months ended September 30, 2014 and 2013, and $38 and ($69) for the nine months ended September 30, 2014 and 2013	37	(58)	(71)	129
Reclassification adjustment for losses recognized in earnings, net of tax of ($33) and ($36) for the three months ended September 30, 2014 and 2013, and ($100) and ($106) for the nine months ended September 30, 2014 and 2013	62	66	187	198
	99	8	116	327
Net change in unrealized gains on securities available for sale:				
Unrealized gains on other-than-temporarily impaired securities available for sale:				
Unrealized gains arising during the period, net of tax of $26 and ($51) for the three months ended September 30, 2014 and 2013, and ($74) and ($62) for the nine months ended September 30, 2014 and 2013	48	95	137	114
Unrealized gains (losses) on other securities available for sale:				
Unrealized gains (losses) arising during the period, net of tax of ($552) and $1,676 for the three months ended September 30, 2014 and 2013, and ($4,441) and $11,302 for the nine months ended September 30, 2014 and 2013	1,079	(3,113)	8,567	(20,990)
Reclassification adjustment for realized gains included in net income, net of tax of ($14) and $0 for the three months ended September 30, 2014 and 2013, and ($85) and $115 for the nine months ended September 30, 2014 and 2013	(27)		(160)	(213)
	1,052	(3,113)	8,407	(21,203)
Other comprehensive income (loss)	1,199	(3,010)	8,660	(20,762)
COMPREHENSIVE INCOME (LOSS)	$ 6,747	$ 1,693	$ 24,991	$ (8,811)

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

	Nine months ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,331	$ 11,951
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	3,558	4,891
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	3,115	1,632
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	697	2,756
Net realized gains on sales of available-for-sale securities	(245)	(328)
Net realized and unrealized (gains) losses on trading securities	(15)	(497)
Proceeds from sale of trading securities	641	4,424
Purchase of trading securities	(930)	(3,803)
Gain on sale of loans	(354)	(556)
Net losses (gains) on dispositions of premises and equipment and foreclosed assets	162	(151)
Proceeds from sale of loans	6,347	19,889
Origination of loans held for sale	(7,007)	(17,484)
Income on bank owned life insurance	(701)	(1,442)
Stock-based compensation expense	445	290
Contribution of treasury stock	90	90
Changes in:		
Accrued interest receivable and other assets	4,260	(3,606)
Accrued interest payable and other liabilities	(6,920)	(1,941)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,474	16,115
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in interest bearing time deposits with other banks	50	(50)
Proceeds from maturities, prepayments and calls of available-for-sale securities	59,021	86,708
Proceeds from sales of available-for-sale securities	38,826	33,672
Purchase of available-for-sale securities	(100,250)	(114,748)
Loan origination and payments, net	(31,669)	(102,600)
Purchase of bank owned life insurance	0	(2,000)
Purchase of FHLB and other equity interests	(958)	(896)
Proceeds from death benefits associated with bank owned life insurance	0	1,348
Purchase of premises and equipment	(3,891)	(3,434)
Proceeds from the sale of premises and equipment and foreclosed assets	505	579
NET CASH USED IN INVESTING ACTIVITIES	(38,366)	(101,421)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Checking, money market and savings accounts	111,876	93,805
Certificates of deposit	(80,327)	(26,527)
Proceeds from sale of treasury stock	0	2
Purchase of treasury stock	(1,675)	24

Cash dividends paid	(7,145)	(6,193)
Repayment of long-term borrowings	(173)	(145)
Proceeds from long-term borrowings	950	900
Net change in short-term borrowings	(4,850)	24,415
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,656	86,281
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(236)	975
CASH AND CASH EQUIVALENTS, Beginning	29,633	31,881
CASH AND CASH EQUIVALENTS, Ending	$ 29,397	$ 32,856
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 9,288	$ 9,134
Income taxes	$ 6,411	$ 3,646
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers to other real estate owned	$ 420	$ 333
Grant of restricted stock awards from treasury stock	$ 609	$ 539

See Notes to Consolidated Financial Statements

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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 Securities and Exchange Commission (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, 2014 and for the three and nine month periods ended September 30, 2014 and 2013 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 period ended September 30, 2014 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, 2013 (the 2013 Form 10-K). 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. 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 by the fourth anniversary of the grant. 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 by the third anniversary of the grant.

At September 30, 2014, 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, 2014 and 2013. At September 30, 2014 and December 31, 2013, the Corporation had 35,500 stock options that were fully vested and exercisable.

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 $118 and $401 for the three and nine months ended September 30, 2014, and $104 and $290 for the three and nine months ended September 30, 2013. As of September 30, 2014, there was $874 of total unrecognized compensation cost related to unvested restricted stock awards.

A summary of changes in nonvested restricted stock awards for the three months ended September 30, 2014 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	70,061	$ 16.80

Granted	0		0
Vested	0		0
Nonvested at end of period	70,061	$	16.80

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A summary of changes in nonvested restricted stock awards for the nine months ended September 30, 2014 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	62,076	$ 16.25
Granted	35,400	17.19
Vested	(27,415)	16.05
Nonvested at end of period	70,061	$ 16.80

3. 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 security is 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 this security. 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 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 security is highly sensitive to assumption changes and market volatility.

The Corporation s derivative instrument is an interest rate swap that is similar to those that trade in liquid markets and its fair value has accordingly been determined using Level 2 inputs which are generally verifiable and do not typically involved significant management judgments.

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Assets and liabilities measured at fair value on a recurring basis are as follows at September 30, 2014 and December 31, 2013:

		Fair Value Measurements at September 30, 2014 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	$ 164,772	$ 0	$ 164,772	$ 0
States and political subdivisions	181,561	0	181,561	0
Residential and multi-family mortgage	271,650	0	271,650	0
Commercial mortgage	0	0	0	0
Corporate notes and bonds	14,712	0	14,712	0
Pooled trust preferred	871	0	0	871
Pooled SBA	64,803	0	64,803	0
Other securities	997	997	0	0
Total Securities Available For Sale	$ 699,366	$ 997	$ 697,498	$ 871
Trading Securities:				
Corporate equity securities	$ 3,009	$ 3,009	$ 0	$ 0
Mutual funds	919	919	0	0
Certificates of deposit	254	254	0	0
Corporate notes and bonds	204	0	204	0
U.S. Government sponsored entities	54	0	54	0
Total Trading Securities	$ 4,440	$ 4,182	$ 258	$ 0
Liabilities:				
Interest rate swaps	$ (936)	$ 0	$ (936)	$ 0

		Fair Value Measurements at December 31, 2013 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	$ 181,625	$ 0	$ 181,625	$ 0
States and political subdivisions	177,943	0	177,943	0
Residential and multi-family mortgage	242,607	0	242,607	0
Commercial mortgage	374	0	374	0
Corporate notes and bonds	14,075	0	14,075	0
Pooled trust preferred	661	0	0	661
Pooled SBA	67,721	0	67,721	0
Other securities	985	985	0	0
Total Securities Available For Sale	$ 685,991	$ 985	$ 684,345	$ 661

Trading Securities:				
Corporate equity securities	$ 2,705	$ 2,705	$ 0	$ 0
Mutual funds	965	965	0	0
Certificates of deposit	253	253	0	0
Corporate notes and bonds	152	0	152	0
U.S. Government sponsored entities	52	0	52	0
Total Trading Securities	$ 4,127	$ 3,923	$ 204	$ 0
Liabilities:				
Interest rate swaps	$ (1,116)	$ 0	$ (1,116)	$ 0

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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, 2014:

	Pooled trust preferred
Balance, July 1, 2014	$ 798
Total gains or (losses):	
Included in other comprehensive income (unrealized)	73
Balance, September 30, 2014	$ 871

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, 2014:

	Pooled Trust Preferred
Balance, January 1, 2014	$ 661
Total gains or (losses):	
Included in other comprehensive income (unrealized)	210
Balance, September 30, 2014	$ 871

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, 2013:

	Pooled trust preferred
Balance, July 1, 2013	$ 630
Total gains or (losses):	
Included in other comprehensive income	146
Balance, September 30, 2013	$ 776

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, 2013:

	Corporate notes and bonds	Pooled trust preferred
Balance, January 1, 2013	$ 1,980	$ 600
Total gains or (losses):		
Included in other comprehensive income	(29)	176
Included in realized gains on available-for-sale securities	58	0
Sale of available-for-sale securities	(2,009)	0

Balance, September 30, 2013	$ 0	$ 776

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The following table presents quantitative information about Level 3 fair value measurements at September 30, 2014:

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	$ 871	Discounted cash flow	Collateral default rate	1.5% in 2014; 1.0% in 2015; 0.5% in 2016 and thereafter
			Yield	12%
			Prepayment speed	2.0% constant prepayment rate in 2014 and thereafter

The following table presents quantitative information about Level 3 fair value measurements at December 31, 2013:

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	$ 661	Discounted cash flow	Collateral default rate	2% in 2014; 1.5% in 2015; 1.0% in 2016; 0.5% in 2017 and thereafter
			Yield	15%
			Prepayment speed	2.0% constant prepayment rate in 2014 and thereafter

At September 30, 2014 and December 31, 2013, the significant unobservable inputs used in the fair value measurement of the Corporation s pooled trust preferred security 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 significantly 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.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals prepared by third-parties. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management also adjusts appraised values based on the length of time that has passed since the appraisal date and other factors. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a non-recurring basis are as follows at September 30, 2014 and December 31, 2013:

		Fair Value Measurements at September 30, 2014 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 3,148	0	0	$ 3,148
Commercial, industrial, and agricultural	3,058	0	0	3,058

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Description	Total	Fair Value Measurements at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 3,000	0	0	$ 3,000
Commercial, industrial, and agricultural	3,706	0	0	3,706

Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had a recorded investment of $7,706 with a valuation allowance of $1,500 as of September 30, 2014, resulting in an additional provision for loan losses of ($69) and $51 for the corresponding three and nine month period ended September 30, 2014. Impaired loans had a recorded investment of $8,161 with a valuation allowance of $1,455 as of December 31, 2013, and an additional provision for loan losses of $704 and $3,233 was recorded for the three and nine months ended September 30, 2013.

The estimated fair values of impaired collateral dependent loans such as commercial or residential mortgages are determined primarily by using 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 management determines an updated appraisal is not necessary, an appropriate adjustment factor is applied based on 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.

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, 2014:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	$ 3,148	Sales comparison approach	Adjustment for differences between the comparable sales	11% - 97% (28%)
Impaired loans commercial, industrial, and agricultural	$ 3,058	Sales comparison approach	Adjustment for differences between the comparable sales	8% - 9% (9%)

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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, 2013:

		Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	commercial mortgages	$ 3,000	Sales comparison approach	Adjustment for differences between the comparable sales	17% - 61% (22%)
Impaired loans agricultural	commercial, industrial, and	$ 3,274	Sales comparison approach	Adjustment for differences between the comparable sales	9%
Impaired loans agricultural	commercial, industrial, and	$ 432	Income approach	Adjustment for differences in net operating income	2%

Fair Value of Financial Instruments

The following table presents the carrying amount and fair value of financial instruments at September 30, 2014:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 29,397	$ 29,397	$ 0	$ 0	$ 29,397
Interest bearing time deposits with other banks	225	0	224	0	224
Securities available for sale	699,366	997	697,498	871	699,366
Trading securities	4,440	4,182	258	0	4,440
Loans held for sale	1,290	0	1,290	0	1,290
Net loans	1,308,532	0	0	1,305,396	1,305,396
FHLB and other equity interests	8,491	n/a	n/a	n/a	n/a
Accrued interest receivable	7,842	6	4,072	3,764	7,842
LIABILITIES					
Deposits	$ (1,866,864)	$ (1,681,430)	$ (184,459)	$ 0	$ (1,865,889)
FHLB and other borrowings	(83,877)	0	(83,846)	0	(83,846)
Subordinated debentures	(20,620)	0	(11,227)	0	(11,227)
Interest rate swaps	(936)	0	(936)	0	(936)
Accrued interest payable	(799)	(341)	(443)	(15)	(799)

The following table presents the carrying amount and fair value of financial instruments at December 31, 2013:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 29,633	$ 29,633	$ 0	$ 0	$ 29,633
Interest bearing time deposits with other banks	275	0	274	0	274
Securities available for sale	685,991	985	684,345	661	685,991
Trading securities	4,127	3,923	204	0	4,127
Loans held for sale	487	0	507	0	507
Net loans	1,279,129	0	0	1,276,622	1,276,622
FHLB and other equity interests	7,533	n/a	n/a	n/a	n/a
Accrued interest receivable	8,032	368	3,302	4,362	8,032

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LIABILITIES					
Deposits	$ (1,835,314)	$ (1,569,552)	$ (265,237)	$ 0	$ (1,834,789)
FHLB and other borrowings	(87,950)	0	(87,833)	0	(87,833)
Subordinated debentures	(20,620)	0	(11,178)	0	(11,178)
Interest rate swaps	(1,116)	0	(1,116)	0	(1,116)
Accrued interest payable	(868)	(200)	(653)	(15)	(868)

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.

Interest bearing time deposits with other banks: The fair value of interest bearing time deposits with other banks is estimated using a discounted cash flow calculation that applies interest rates currently being offered to a schedule of aggregated expected monthly maturities, resulting in a Level 2 classification.

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 resulting in a classification that is consistent with 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 earnings 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.

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4. SECURITIES

Securities available for sale at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014				December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Gov t sponsored entities	$ 165,427	$ 2,409	$ (3,064)	$ 164,772	$ 185,205	$ 2,894	$ (6,474)	$ 181,625
State & political subdivisions	175,279	6,664	(382)	181,561	176,490	3,770	(2,317)	177,943
Residential & multi-family mortgage	274,168	2,284	(4,802)	271,650	248,017	2,410	(7,820)	242,607
Commercial mortgage	0	0	0	0	385	0	(11)	374
Corporate notes & bonds	15,751	123	(1,162)	14,712	15,744	65	(1,734)	14,075
Pooled trust preferred	800	71	0	871	800	0	(139)	661
Pooled SBA	65,524	1,007	(1,728)	64,803	70,077	688	(3,044)	67,721
Other securities	1,020	0	(23)	997	1,020	0	(35)	985
Total	$ 697,969	$ 12,558	$ (11,161)	$ 699,366	$ 697,738	$ 9,827	$ (21,574)	$ 685,991

At September 30, 2014, 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, and the Corporation holds one commercial mortgage security that is private label.

Trading securities at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
Corporate equity securities	$ 3,009	$ 2,705
Mutual funds	919	965
Certificates of deposit	254	253
Corporate notes and bonds	204	152
U.S. Government sponsored entities	54	52
Total	$ 4,440	$ 4,127

Securities with unrealized losses at September 30, 2014 and December 31, 2013, 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, 2014

	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	$ 11,771	$ (86)	$ 96,192	$ (2,978)	$ 107,963	$ (3,064)
State & political subdivisions	4,360	(8)	19,659	(374)	24,019	(382)
Residential & multi-family mortgage	83,613	(1,331)	98,066	(3,471)	181,679	(4,802)
Corporate notes & bonds	0	0	8,240	(1,162)	8,240	(1,162)
Pooled SBA	0	0	35,588	(1,728)	35,588	(1,728)
Other securities	0	0	997	(23)	997	(23)
	$ 99,744	$ (1,425)	$ 258,742	$ (9,736)	$ 358,486	$ (11,161)

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December 31, 2013	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
U.S. Gov t sponsored entities	$ 95,677	$ (5,394)	$ 17,964	$ (1,080)	$ 113,641	$ (6,474)
State & political subdivisions	57,526	(2,192)	5,324	(125)	62,850	(2,317)
Residential and multi-family mortgage	150,229	(6,806)	16,608	(1,014)	166,837	(7,820)
Commercial mortgage	374	(11)	0	0	374	(11)
Corporate notes & bonds	0	0	9,662	(1,734)	9,662	(1,734)
Pooled trust preferred	0	0	661	(139)	661	(139)
Pooled SBA	36,842	(2,296)	8,277	(748)	45,119	(3,044)
Other securities	985	(35)	0	0	985	(35)
	$ 341,633	$ (16,734)	$ 58,496	$ (4,840)	$ 400,129	$ (21,574)

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.

At September 30, 2014, the Corporation held one structured pooled trust preferred security with an adjusted amortized cost of $800 and a fair value of $871. The Corporation evaluated this security for other-than-temporary impairment by estimating the cash flows expected to be received, taking into account future estimated levels of deferrals and defaults by the underlying issuers, and discounting those cash flows at the appropriate accounting yield. For the three and nine months ended September 30, 2014, and September 30, 2013, no other-than-temporary impairment was required to be realized in earnings. At September 30, 2014 and December 31, 2013, the Corporation held four structured pooled trust preferred securities with an adjusted amortized cost and fair value of zero.

A roll-forward of the other-than-temporary impairment amount related to credit losses for the three and nine months ended September 30, 2014 and 2013 is as follows:

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
Additional credit loss for which other-than-temporary impairment was not previously recognized	0
Additional credit loss for which other-than-temporary impairment was previously recognized	0
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, end of period	$ 4,054

Due to the insignificance of the adjusted amortized cost balance, no further disclosures are required with respect to the Corporation s structured pooled trust preferred securities.

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.

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As of September 30, 2014 and December 31, 2013, 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.

Information pertaining to the sale of available for sale securities is as follows:

	Proceeds	Gross Gains	Gross Losses
Three months ended September 30, 2014	$ 9,698	$ 41	$ 0
Nine months ended September 30, 2014	38,826	328	(83)
Three months ended September 30, 2013	0	0	0
Nine months ended September 30, 2013	33,672	822	(494)

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at September 30, 2014:

	Amortized Cost	Fair Value
1 year or less	$ 25,007	$ 24,642
1 year 5 years	157,048	159,881
5 years 10 years	137,169	139,246
After 10 years	38,033	38,147
	357,257	361,916
Residential and multi-family mortgage	274,168	271,650
Pooled SBA	65,524	64,803
Total debt securities	$ 696,949	$ 698,369

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, 2014 and December 31, 2013, securities carried at $330,550 and $353,102, respectively, were pledged to secure public deposits and for other purposes as provided by law.

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5. LOANS

Total net loans at September 30, 2014 and December 31, 2013 are summarized as follows:

	September 30, 2014	December 31, 2013
Commercial, industrial, and agricultural	$ 424,059	$ 427,715
Commercial mortgages	338,445	343,465
Residential real estate	494,799	459,114
Consumer	67,753	63,491
Credit cards	5,079	5,065
Overdrafts	445	409
Less: unearned discount	(4,205)	(3,896)
allowance for loan losses	(17,843)	(16,234)
Loans, net	$ 1,308,532	$ 1,279,129

At September 30, 2014 and December 31, 2013, net unamortized loan costs of $657 and $911, respectively, have been included in the carrying value of loans.

The Corporation s outstanding loans and related unfunded commitments are primarily concentrated within Central and Western Pennsylvania and Central Ohio. 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.

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% of the Corporation s total loan portfolio at September 30, 2014 and 33% as of December 31, 2013. Commercial mortgage loans comprised 26% of the Corporation s total loan portfolio at September 30, 2014 and 27% as of December 31, 2013. Management assigns a risk rating to all commercial loans. 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 38% and 36% of the Corporation s total loan portfolio at September 30, 2014 and December 31, 2013, respectively. 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 so originated are classified as loans held for sale and are excluded from residential real estate loans reported above. Loans held for sale as of September 30, 2014 totaled $1.3 million. 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, 2014 and December 31, 2013. Terms and collateral requirements vary depending on the size and nature of the loan.

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The Corporation 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.

During the first quarter of 2014, management reviewed its loan portfolio segments resulting in the reclassification of approximately $66 million into Commercial, Industrial and Agricultural. $54 million was reclassified out of Commercial Mortgages and $12 million was reclassified out of Residential Real Estate. During the second quarter of 2014, management further identified a reclassification of approximately $70 million into the Commercial, Industrial and Agricultural segment from the Commercial Mortgage segment. Accordingly, the December 31, 2013 loan portfolio segment balances were reclassified to conform to the September 30, 2014 presentation. The effect of this reclassification was not considered material to the overall allowance for loan losses, did not change the total loan balances, and is not considered material to the consolidated financial statements taken as a whole.

Transactions in the allowance for loan losses for the three months ended September 30, 2014 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, July 1, 2014	$ 8,096	$ 4,581	$ 2,467	$ 1,996	$ 88	$ 187	$ 17,415
Charge-offs	(60)	(92)	(17)	(415)	(16)	(75)	(675)
Recoveries	0	0	18	25	4	18	65
Provision for loan losses	690	(291)	93	467	3	76	1,038
Allowance for loan losses, September 30, 2014	$ 8,726	$ 4,198	$ 2,561	$ 2,073	$ 79	$ 206	$ 17,843

Transactions in the allowance for loan losses for the nine months ended September 30, 2014 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2014	$ 8,212	$ 3,536	$ 2,450	$ 1,763	$ 66	$ 207	$ 16,234
Charge-offs	(379)	(142)	(215)	(1,183)	(39)	(197)	(2,155)
Recoveries	1	10	37	78	7	73	206
Provision for loan losses	892	794	289	1,415	45	123	3,558
Allowance for loan losses, September 30, 2014	$ 8,726	$ 4,198	$ 2,561	$ 2,073	$ 79	$ 206	$ 17,843

Transactions in the allowance for loan losses for the three months ended September 30, 2013 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, July 1, 2013	$ 5,338	$ 5,896	$ 2,508	$ 1,555	$ 55	$ 148	$ 15,500
Charge-offs	(169)	(4)	(57)	(269)	(19)	(72)	(590)
Recoveries	0	1,424	1	21	3	16	1,465
Provision (benefit) for loan losses	384	(275)	189	454	18	76	846
Allowance for loan losses, September 30, 2013	$ 5,553	$ 7,041	$ 2,641	$ 1,761	$ 57	$ 168	$ 17,221

Transactions in the allowance for loan losses for the nine months ended September 30, 2013 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2013	$ 4,940	$ 4,697	$ 2,466	$ 1,699	$ 83	$ 175	$ 14,060
Charge-offs	(253)	(1,534)	(398)	(946)	(48)	(163)	(3,342)
Recoveries	7	1,427	5	95	13	65	1,612
Provision (benefit) for loan losses	859	2,451	568	913	9	91	4,891
Allowance for loan losses, September 30, 2013	$ 5,553	$ 7,041	$ 2,641	$ 1,761	$ 57	$ 168	$ 17,221

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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, 2014 and December 31, 2013. The recorded investment in loans excludes accrued interest and unearned discounts due to their insignificance.

September 30, 2014

	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	$ 339	$ 296	$ 201	$ 0	$ 0	$ 0	$ 836
Collectively evaluated for impairment	8,276	2,288	2,360	2,073	79	206	15,282
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	111	1,614	0	0	0	0	1,725
Total ending allowance balance	$ 8,726	$ 4,198	$ 2,561	$ 2,073	$ 79	$ 206	$ 17,843
Loans:							
Individually evaluated for impairment	$ 4,173	$ 1,084	$ 551	$ 0	$ 0	$ 0	$ 5,808
Collectively evaluated for impairment	418,225	325,143	494,248	67,753	5,079	445	1,310,893
Acquired with deteriorated credit quality	0	2,217	0	0	0	0	2,217
Modified in a troubled debt restructuring	1,661	10,001	0	0	0	0	11,662
Total ending loans balance	$ 424,059	$ 338,445	$ 494,799	$ 67,753	$ 5,079	$ 445	$ 1,330,580

December 31, 2013

	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	$ 372	$ 55	$ 0	$ 0	$ 0	$ 0	$ 427
Collectively evaluated for impairment	7,725	2,141	2,450	1,763	66	207	14,352
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	115	1,340	0	0	0	0	1,455
Total ending allowance balance	$ 8,212	$ 3,536	$ 2,450	$ 1,763	$ 66	$ 207	$ 16,234
Loans:							
Individually evaluated for impairment	$ 4,923	$ 1,249	$ 0	$ 0	$ 0	$ 0	$ 6,172
Collectively evaluated for impairment	421,002	329,645	459,114	63,491	5,065	409	1,278,726
Acquired with deteriorated credit quality	0	2,225	0	0	0	0	2,225
Modified in a troubled debt restructuring	1,790	10,346	0	0	0	0	12,136
Total ending loans balance	$ 427,715	$ 343,465	$ 459,114	$ 63,491	$ 5,065	$ 409	$ 1,299,259

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, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013:

September 30, 2014

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 4,051	$ 4,051	$ 450
Commercial mortgage	5,800	5,413	1,910
Residential real estate	400	400	201
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,680	1,783	0
Commercial mortgage	5,671	5,672	0
Residential real estate	152	151	0
Total	$ 18,754	$ 17,470	$ 2,561

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December 31, 2013

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 5,929	$ 4,679	$ 487
Commercial mortgage	5,646	5,443	1,395
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,055	2,034	0
Commercial mortgage	6,178	6,152	0
Residential real estate	0	0	0
Total	$ 19,808		