CNB FINANCIAL CORP/PA
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2017

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	**(I.R.S. Employer**
incorporation or organization)	**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. 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). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the issuer s common stock as of August 1, 2017

COMMON STOCK NO PAR VALUE PER SHARE: 15,285,236 SHARES

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PART I.

FINANCIAL INFORMATION

PART II.

OTHER INFORMATION

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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.

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Part I Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

	(unaudited) June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 31,293	$ 26,937
Interest bearing deposits with other banks	1,756	2,246
Total cash and cash equivalents	33,049	29,183
Securities available for sale	453,065	495,835
Trading securities	5,751	4,858
Loans held for sale	1,652	7,528
Loans	2,024,307	1,876,966
Less: unearned discount	(3,478)	(3,430)
Less: allowance for loan losses	(17,269)	(16,330)
Net loans	2,003,560	1,857,206
FHLB and other equity interests	23,298	19,186
Premises and equipment, net	50,367	49,522
Bank owned life insurance	44,786	44,273
Mortgage servicing rights	1,381	1,391
Goodwill	38,730	38,730
Core deposit intangible	2,192	2,854
Accrued interest receivable and other assets	21,078	23,255
Total Assets	$ 2,678,909	$ 2,573,821
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 313,871	$ 289,922
Interest bearing deposits	1,762,918	1,727,600
Total deposits	2,076,789	2,017,522
Short-term borrowings	44,959	134,078
FHLB and other long term borrowings	217,981	102,926
Subordinated debentures	70,620	70,620
Deposits held for sale	0	6,456
Accrued interest payable and other liabilities	28,268	30,435
Total liabilities	2,438,617	2,362,037
Common stock, $0 par value; authorized 50,000,000 shares; issued 15,308,378 shares at June 30, 2017 and 14,473,482 shares at December 31, 2016	0	0
Additional paid in capital	96,490	77,737

Retained earnings	142,409	134,295
Treasury stock, at cost (23,007 shares at June 30, 2017 and 5,667 shares at December 31, 2016)	(541)	(127)
Accumulated other comprehensive income (loss)	1,934	(121)
Total shareholders equity	240,292	211,784
Total Liabilities and Shareholders Equity	$ 2,678,909	$ 2,573,821

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 June 30, 2017	Three months ended June 30, 2016
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 23,915	$ 19,043
Securities:		
Taxable	2,125	2,414
Tax-exempt	774	867
Dividends	189	149
Total interest and dividend income	27,003	22,473
INTEREST EXPENSE:		
Deposits	2,243	2,077
Borrowed funds	785	794
Subordinated debentures (includes $74 and $86 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2017 and 2016, respectively)	986	199
Total interest expense	4,014	3,070
NET INTEREST INCOME	22,989	19,403
PROVISION FOR LOAN LOSSES	1,134	220
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	21,855	19,183
NON-INTEREST INCOME:		
Service charges on deposit accounts	1,165	1,006
Other service charges and fees	559	624
Wealth and asset management fees	952	780
Net realized gains on available-for-sale securities (includes $155 and $1,005 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2017 and 2016, respectively)	155	1,005
Net realized and unrealized gains on trading securities	127	64
Mortgage banking	247	147
Bank owned life insurance	364	263
Card processing and interchange income	970	787
Gain on sale of branch	536	0
Other	14	142
Total non-interest income	5,089	4,818
NON-INTEREST EXPENSES:		
Salaries and benefits	8,902	7,908
Net occupancy expense	2,257	1,881
Amortization of core deposit intangible	331	217
Data processing	1,019	1,121
State and local taxes	614	558
Legal, professional, and examination fees	666	364

Advertising	619	395
FDIC insurance premiums	370	340
Prepayment penalties long-term borrowings	0	1,506
Core processing conversion costs	0	1,488
Merger costs	0	173
Card processing and interchange expenses	614	448
Other	2,405	2,353
Total non-interest expenses	17,797	18,752
INCOME BEFORE INCOME TAXES	9,147	5,249
INCOME TAX EXPENSE (includes $28 and $322 income tax expense from reclassification items in 2017 and 2016, respectively)	2,464	1,184
NET INCOME	$ 6,683	$ 4,065
EARNINGS PER SHARE:		
Basic	$ 0.44	$ 0.28
Diluted	$ 0.44	$ 0.28
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

	Six months ended June 30, 2017	Six months ended June 30, 2016
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 45,885	$ 37,729
Securities:		
Taxable	4,316	4,769
Tax-exempt	1,574	1,750
Dividends	332	291
Total interest and dividend income	52,107	44,539
INTEREST EXPENSE:		
Deposits	4,364	4,093
Borrowed funds	1,594	1,708
Subordinated debentures (includes $149 and $176 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2017 and 2016, respectively)	1,958	393
Total interest expense	7,916	6,194
NET INTEREST INCOME	44,191	38,345
PROVISION FOR LOAN LOSSES	2,150	1,416
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	42,041	36,929
NON-INTEREST INCOME:		
Service charges on deposit accounts	2,255	1,987
Other service charges and fees	1,088	1,184
Wealth and asset management fees	1,823	1,503
Net realized gains on available-for-sale securities (includes $1,538 and $1,005 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2017 and 2016, respectively)	1,538	1,005
Net realized and unrealized gains on trading securities	315	30
Mortgage banking	431	318
Bank owned life insurance	716	526
Card processing and interchange income	1,848	1,622
Gain on sale of branch	536	0
Other	312	420
Total non-interest income	10,862	8,595
NON-INTEREST EXPENSES:		
Salaries and benefits	17,907	15,399
Net occupancy expense	4,797	3,720
Amortization of core deposit intangible	662	432
Data processing	1,980	2,373
State and local taxes	1,353	1,050
Legal, professional, and examination fees	1,215	738

Advertising	1,032	879
FDIC insurance premiums	574	662
Prepayment penalties long-term borrowings	0	1,506
Core processing conversion costs	0	1,555
Merger costs	0	215
Card processing and interchange expenses	1,036	1,082
Other	4,275	3,955
Total non-interest expenses	34,831	33,566
INCOME BEFORE INCOME TAXES	18,072	11,958
INCOME TAX EXPENSE (includes $486 and $291 income tax expense from reclassification items in 2017 and 2016, respectively)	4,909	2,874
NET INCOME	$ 13,163	$ 9,084
EARNINGS PER SHARE:		
Basic	$ 0.87	$ 0.63
Diluted	$ 0.87	$ 0.63
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.33	$ 0.33

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Dollars in thousands

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
NET INCOME	$ 6,683	$ 4,065	$ 13,163	$ 9,084
Other comprehensive income, net of tax:				
Net change in fair value of interest rate swap agreements designated as cash flow hedges:				
Unrealized loss on interest rate swaps, net of tax of $5 and $14 for the three months ended June 30, 2017 and 2016, and $1 and $59 for the six months ended June 30, 2017 and 2016	(8)	(25)	(2)	(109)
Reclassification adjustment for losses recognized in earnings, net of tax of ($26) and ($31) for the three months ended June 30, 2017 and 2016, and ($52) and ($62) for the six months ended June 30, 2017 and 2016	48	56	97	114
	40	31	95	5
Net change in unrealized gains on securities available for sale:				
Unrealized gains on other-than-temporarily impaired securities available for sale:				
Unrealized gains (losses) arising during the period, net of tax of $0 and $179 for the three months ended June 30, 2017 and 2016, and ($47) and $276 for the six months ended June 30, 2017 and 2016	0	(332)	87	(513)
Reclassification adjustment for realized gains included in net income, net of tax of $0 and $323 for the three months ended June 30, 2017 and 2016, and $484 and $323 for the six months ended June 30, 2017 and 2016	0	(599)	(899)	(599)
	0	(931)	(812)	(1,112)
Unrealized gains on other securities available for sale:				
Unrealized gains arising during the period, net of tax of ($1,088) and ($991) for the three months ended June 30, 2017 and 2016, and ($1,544) and ($2,936) for the six months ended June 30, 2017 and 2016	2,023	1,839	2,873	5,454
Reclassification adjustment for realized gains included in net income, net of tax of $54 and $29 for the three months ended June 30, 2017 and 2016, and $54 and $29 for the six months ended June 30, 2017 and 2016	(101)	(54)	(101)	(54)
	1,922	1,785	2,772	5,400
Other comprehensive income	1,962	885	2,055	4,293
COMPREHENSIVE INCOME	$ 8,645	$ 4,950	$ 15,218	$ 13,377

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

	Six months ended June 30, 2017	Six months ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,163	$ 9,084
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	2,150	1,416
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	2,683	1,981
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	(485)	(671)
Net realized gains on sales of available-for-sale securities	(1,538)	(1,005)
Net realized and unrealized gains on trading securities	(315)	(30)
Proceeds from sale of trading securities	402	468
Purchase of trading securities	(980)	(300)
Gain on sale of branch	(536)	0
Gain on sale of loans	(156)	(213)
Net losses on dispositions of premises and equipment and foreclosed assets	20	70
Proceeds from sale of loans	13,106	7,995
Origination of loans held for sale	(10,714)	(7,324)
Income on bank owned life insurance, including death benefit proceeds in excess of cash surrender value	(716)	(526)
Stock-based compensation expense	396	412
Contribution of treasury stock	0	61
Changes in:		
Accrued interest receivable and other assets	(1,724)	156
Accrued interest payable and other liabilities	(3,073)	(750)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,683	10,824
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, prepayments and calls of available-for-sale securities	41,358	29,113
Proceeds from sales of available-for-sale securities	7,618	4,420
Purchase of available-for-sale securities	(2,268)	(1,703)
Proceeds from death benefit of BOLI policies	203	0
Net cash received from sale of branch	1,079	0
Loan origination and payments, net	(148,106)	(78,766)
Purchase of FHLB and other equity interests	(4,112)	(102)
Purchase of premises and equipment	(2,995)	(3,384)
Proceeds from the sale of premises and equipment and foreclosed assets	236	377
NET CASH USED IN BY INVESTING ACTIVITIES	(106,987)	(50,045)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Checking, money market and savings accounts	53,958	71,735
Certificates of deposit	6,388	3,807
Purchase of treasury stock	(1,357)	(23)
Cash dividends paid	(5,049)	(4,771)
Proceeds from stock offering, net of issuance costs	19,294	0

Repayment of long-term borrowings	(24,945)	(50,011)
Advances from long-term borrowings	140,000	0
Net change in short-term borrowings	(89,119)	15,149
NET CASH PROVIDED BY FINANCING ACTIVITIES	99,170	35,886
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,866	(3,335)
CASH AND CASH EQUIVALENTS, Beginning	29,183	27,261
CASH AND CASH EQUIVALENTS, Ending	$ 33,049	$ 23,926
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 7,916	$ 6,664
Income taxes	3,100	2,026
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers to other real estate owned	$ 51	$ 40
Grant of restricted stock awards from treasury stock	943	874
Net assets transferred for sale of branch, excluding cash and cash equivalents	543	0

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 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 June 30, 2017 and for the three and six month periods ended June 30, 2017 and 2016 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 six month periods ended June 30, 2017 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, 2016 (the 2016 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 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 June 30, 2017, 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 six month periods ended June 30, 2017 and 2016.

On February 14, 2017, the Corporation s Board of Directors granted performance-based restricted stock awards (PBRSAs) with a range of 5,306 to 7,959 shares to an employee. The number of PBRSAs will depend on certain performance conditions and are also subject to service-based vesting.

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 $207 and $396 for the three and six months ended June 30, 2017 and $172 and $412 for the three and six months ended June 30, 2016. As of June 30, 2017, there was $1,786 of total unrecognized compensation cost related to unvested restricted stock awards.

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A summary of changes in nonvested restricted stock awards for the three months ended June 30, 2017 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	99,683	$ 20.67
Forfeited	(150)	17.63
Vested	(300)	17.83
Nonvested at end of period	99,233	$ 20.68

A summary of changes in nonvested restricted stock awards for the six months ended June 30, 2017 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	100,726	$ 17.36
Granted	38,123	25.92
Forfeited	(150)	17.63
Vested	(39,466)	17.28
Nonvested at end of period	99,233	$ 20.68

The fair value of shares vested was $6 and $0 during the three months ended June 30, 2017 and 2016, respectively. The fair value of shares vested was $923 and $542 during the six months ended June 30, 2017 and 2016, respectively.

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 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

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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 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).

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 recurring basis are as follows at June 30, 2017 and December 31, 2016:

		Fair Value Measurements at June 30, 2017 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	$ 128,476	$ 0	$ 128,476	$ 0
States and political subdivisions	149,051	0	149,051	0
Residential and multi-family mortgage	116,781	0	116,781	0
Corporate notes and bonds	18,220	0	18,220	0
Pooled SBA	39,565	0	39,565	0
Other equity securities	972	972	0	0
Total Securities Available For Sale	$ 453,065	$ 972	$ 452,093	$ 0
Interest Rate swaps	$ 235	$ 0	$ 235	$ 0
Trading Securities:				
Corporate equity securities	$ 3,987	$ 3,987	$ 0	$ 0
Mutual funds	1,244	1,244	0	0
Certificates of deposit	211	211	0	0
Corporate notes and bonds	256	256	0	0
U.S. Government sponsored entities	53	0	53	0
Total Trading Securities	$ 5,751	$ 5,698	$ 53	$ 0
Liabilities,				
Interest rate swaps	$ (548)	$ 0	$ (548)	$ 0

		Fair Value Measurements at December 31, 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	$ 140,351	$ 0	$ 140,351	$ 0
States and political subdivisions	157,037	0	157,037	0
Residential and multi-family mortgage	134,976	0	134,976	0
Corporate notes and bonds	17,414	0	17,414	0
Pooled trust preferred	2,049	0	0	2,049
Pooled SBA	43,037	0	43,037	0
Other equity securities	971	971	0	0
Total Securities Available For Sale	$ 495,835	$ 971	$ 492,815	$ 2,049
Interest Rate swaps	$ 211	$ 0	$ 211	$ 0
Trading Securities:				
Corporate equity securities	$ 3,312	$ 3,312	$ 0	$ 0
Mutual funds	1,037	1,037	0	0
Certificates of deposit	202	202	0	0
Corporate notes and bonds	254	254	0	0
U.S. Government sponsored entities	53	0	53	0
Total Trading Securities	$ 4,858	$ 4,805	$ 53	$ 0
Liabilities,				
Interest rate swaps	$ (670)	$ 0	$ (670)	$ 0

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 June 30, 2017 and 2016:

	2017	2016
Balance, April 1	$ 0	$ 3,109
Total gains or (losses):		
Included in other comprehensive income (unrealized)	0	(922)
Sale of available-for-sale securities	0	(485)
Balance, June 30	$ 0	$ 1,702

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 six months ended June 30, 2017 and 2016:

	2017	2016
Balance, January 1	$ 2,049	$ 3,413
Total gains or (losses):		
Included in other comprehensive income (unrealized)	134	(922)
Sale of available-for-sale securities	(2,183)	(789)

Balance, June 30	$ 0	$ 1,702

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The following table presents quantitative information about Level 3 fair value measurements at December 31, 2016:

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	$ 2,049	Discounted cash flow	Collateral default rate	0.5% in 2016 and thereafter
			Yield (weighted average)	10%
			Prepayment speed	2.0% constant prepayment rate in 2016 and thereafter

At December 31, 2016, the significant unobservable inputs used in the fair value measurement of the Corporation s pooled trust preferred securities were 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 June 30, 2017 and December 31, 2016:

		Fair Value Measurements at June 30, 2017 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	$ 11	0	0	$ 11

		Fair Value Measurements at December 31, 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	$ 2,067	0	0	$ 2,067

Impaired loans, measured for impairment using the fair value of collateral for collateral dependent loans, had a recorded investment of $690 with a valuation allowance of $679 as of June 30, 2017, resulting in a negative provision for loan losses of ($271) and ($373) for the corresponding three and six month periods ended June 30, 2017. Impaired loans had a recorded investment of $3,120 with a valuation allowance of $1,053 as of December 31, 2016. Impaired loans carried at fair value resulted in an additional provision for loan losses of $135 and $53 for the three and six month periods ended June 30, 2016.

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 for unimpaired loans, unless in management s view changes in circumstances warrant obtaining an updated appraisal.

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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 June 30, 2017:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	$ 11	Discounted cash flow method	Discount used in discounted cash flow method	10% (10%)

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, 2016:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	$ 2,067	Sales comparison approach and discounted cash flow method	Adjustment for differences between the comparable sales and discount used in discounted cash flow method	10% - 14% (13%)

Fair Value of Financial Instruments

The following table presents the carrying amount and fair value of financial instruments at June 30, 2017:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 33,049	$ 33,049	$ 0	$ 0	$ 33,049
Securities available for sale	453,065	972	452,093	0	453,065
Trading securities	5,751	5,698	53	0	5,751
Loans held for sale	1,652	0	1,654	0	1,654
Net loans	2,003,560	0	0	1,960,554	1,960,554
FHLB and other equity interests	23,298	n/a	n/a	n/a	n/a
Interest rate swaps	235	0	235	0	235
Accrued interest receivable	7,857	6	2,760	5,091	7,857
LIABILITIES					
Deposits	$ (2,076,789)	$ (1,839,627)	$ (225,848)	$ 0	$ (2,065,475)
FHLB and other borrowings	(262,940)	0	(251,585)	0	(251,585)
Subordinated debentures	(70,620)	0	(62,696)	0	(62,696)
Interest rate swaps	(548)	0	(548)	0	(548)
Accrued interest payable	(510)	0	(510)	0	(510)

The following table presents the carrying amount and fair value of financial instruments at December 31, 2016:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 29,183	$ 29,183	$ 0	$ 0	$ 29,183
Securities available for sale	495,835	971	492,815	2,049	495,835
Trading securities	4,858	4,805	53	0	4,858
Loans held for sale	7,528	0	7,553	0	7,553

Net loans	1,857,206	0	0	1,817,341	1,817,341
FHLB and other equity interests	19,186	n/a	n/a	n/a	n/a
Interest rate swaps	211	0	211	0	211
Accrued interest receivable	8,264	6	3,014	5,244	8,264

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LIABILITIES					
Deposits	$ (2,017,522)	$ (1,786,748)	$ (219,765)	$ 0	(2,006,513)
FHLB and other borrowings	(237,004)	0	(226,769)	0	(226,769)
Subordinated debentures	(70,620)	0	(61,831)	0	(61,831)
Deposits held for sale	(6,456)	0	(6,417)	0	(6,417)
Interest rate swaps	(670)	0	(670)	0	(670)
Accrued interest payable	(510)	0	(510)	0	(510)

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.

Deposits held for sale: The fair value of deposits held for sale is estimated based upon binding contracts and quotes from third party investors 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.

4. SECURITIES

Securities available for sale at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Gov t sponsored entities	$ 127,616	$ 1,034	$ (174)	$ 128,476	$ 139,823	$ 1,107	$ (579)	$ 140,351
State & political subdivisions	143,886	5,444	(279)	149,051	153,492	4,194	(649)	157,037
Residential & multi-family mortgage	117,039	774	(1,032)	116,781	136,807	551	(2,382)	134,976
Corporate notes & bonds	18,612	108	(500)	18,220	18,299	77	(962)	17,414
Pooled trust preferred	0	0	0	0	800	1,249	0	2,049
Pooled SBA	39,736	424	(595)	39,565	43,450	505	(918)	43,037
Other equity securities	1,020	0	(48)	972	1,020	0	(49)	971
Total	$ 447,909	$ 7,784	$ (2,628)	$ 453,065	$ 493,691	$ 7,683	$ (5,539)	$ 495,835

At June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Corporate equity securities	$ 3,987	$ 3,312
Mutual funds	1,244	1,037
Certificates of deposit	211	202
Corporate notes and bonds	256	254
U.S. Government sponsored entities	53	53
Total	$ 5,751	$ 4,858

Securities with unrealized losses at June 30, 2017 and December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

June 30, 2017

	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	$ 59,087	$ (174)	$ 0	$ (0)	$ 59,087	$ (174)

State & political subdivisions	5,866	(86)	272	(193)	6,138	(279)
Residential & multi-family mortgage	41,306	(376)	33,844	(656)	75,150	(1,032)
Corporate notes & bonds	0	(0)	8,993	(500)	8,993	(500)
Pooled SBA	4,991	(69)	19,146	(526)	24,137	(595)
Other equity securities	0	(0)	972	(48)	972	(48)
	$ 111,250	$ (705)	$ 63,227	$ (1,923)	$ 174,477	$ (2,628)

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December 31, 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	$ 90,380	$ (579)	$ 0	$ (0)	$ 90,380	$ (579)
State & political subdivisions	32,353	(448)	264	(201)	32,617	(649)
Residential and multi-family mortgage	65,598	(1,255)	34,611	(1,127)	100,209	(2,382)
Corporate notes & bonds	2,089	(11)	8,476	(951)	10,565	(962)
Pooled SBA	6,481	(126)	20,560	(792)	27,041	(918)
Other equity securities	0	(0)	971	(49)	971	(49)
	$ 196,901	$ (2,419)	$ 64,882	$ (3,120)	$ 261,783	$ (5,539)

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 six months ended June 30, 2017 and 2016 is as follows:

	2017	2016
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, beginning of period	$ 2,071	$ 4,054
Credit losses previously recognized on securities sold during the period	(2,071)	(1,983)
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	$ 0	$ 2,071

The adjusted amortized cost of structured pooled trust preferred securities as of December 31, 2016 is insignificant.

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. 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 June 30, 2017 and December 31, 2016, 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.

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On June 30, 2017 and December 31, 2016, securities carried at $302,593 and $329,379, respectively, were pledged to secure public deposits and for other purposes as provided by law.

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

	Proceeds	Gross Gains	Gross Losses
Three months ended June 30, 2017	$ 5,434	$ 155	$ 0
Three months ended June 30, 2016	$ 4,420	$ 1,005	$ 0
Six months ended June 30, 2017	$ 7,618	$ 1,538	$ 0
Six months ended June 30, 2016	$ 4,420	$ 1,005	$ 0

The tax provision related to these net realized gains was $54 and $538 during the three and six months ended June 30, 2017 and $352 during both the three and six months ended June 30, 2016.

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at June 30, 2017:

	Amortized Cost	Fair Value
1 year or less	$ 47,977	$ 47,728
1 year 5 years	170,873	174,756
5 years 10 years	63,058	64,999
After 10 years	8,206	8,264
	290,114	295,747
Residential and multi-family mortgage	117,039	116,781
Pooled SBA	39,736	39,565
Total debt securities	$ 446,889	$ 452,093

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.

5. LOANS

Total net loans at June 30, 2017 and December 31, 2016 are summarized as follows:

	June 30, 2017	December 31, 2016
Commercial, industrial, and agricultural	$ 636,836	$ 567,800
Commercial mortgages	618,262	574,826
Residential real estate	684,294	652,883
Consumer	76,476	74,816
Credit cards	6,080	6,046
Overdrafts	2,359	595
Less: unearned discount	(3,478)	(3,430)
allowance for loan losses	(17,269)	(16,330)
Loans, net	$ 2,003,560	$ 1,857,206

At June 30, 2017 and December 31, 2016, net unamortized loan (fees) costs of $(2,347) and $(1,507), respectively, have been included in the carrying value of loans.

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

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 31% and 30% of the Corporation s total loan portfolio at June 30, 2017 and December 31, 2016, respectively. Commercial mortgage loans comprised 31% and 31% of the Corporation s total loan portfolio at June 30, 2017 and December 31, 2016, respectively. 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 at loan origination. 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 34% and 35% of the Corporation s total loan portfolio at June 30, 2017 and December 31, 2016, 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. Loans so originated 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 June 30, 2017 and December 31, 2016. Terms and collateral requirements vary depending on the size and nature of the loan.

Transactions in the allowance for loan losses for the three months ended June 30, 2017 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, April 1, 2017	$ 4,785	$ 7,357	$ 2,022	$ 2,089	$ 105	$ 188	$ 16,546
Charge-offs	(29)	0	(130)	(531)	(14)	(60)	(764)
Recoveries	119	192	2	12	4	24	353
Provision (benefit) for loan losses	688	92	(224)	498	47	33	1,134
Allowance for loan losses, June 30, 2017	$ 5,563	$ 7,641	$ 1,670	$ 2,068	$ 142	$ 185	$ 17,269

Transactions in the allowance for loan losses for the six months ended June 30, 2017 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2017	$ 5,428	$ 6,753	$ 1,653	$ 2,215	$ 93	$ 188	$ 16,330
Charge-offs	(30)	0	(198)	(1,266)	(72)	(129)	(1,695)
Recoveries	131	194	73	14	15	57	484
Provision (benefit) for loan losses	34	694	142	1,105	106	69	2,150
Allowance for loan losses, June 30, 2017	$ 5,563	$ 7,641	$ 1,670	$ 2,068	$ 142	$ 185	$ 17,269

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

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, April 1, 2016	$ 5,627	$ 6,044	$ 2,574	$ 2,274	$ 81	$ 138	$ 16,738
Charge-offs	(162)	(20)	(124)	(701)	(28)	(30)	(1,065)
Recoveries	39	0	3	30	3	20	95
Provision (benefit) for loan losses	(286)	183	(154)	463	(6)	20	220
Allowance for loan losses, June 30, 2016	$ 5,218	$ 6,207	$ 2,299	$ 2,066	$ 50	$ 148	$ 15,988

Transactions in the allowance for loan losses for the six months ended June 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	(433)	(20)	(149)	(1,688)	(37)	(81)	(2,408)
Recoveries	47	5	62	74	15	40	243
Provision (benefit) for loan losses	(431)	617	(89)	1,309	(18)	28	1,416
Allowance for loan losses, June 30, 2016	$ 5,218	$ 6,207	$ 2,299	$ 2,066	$ 50	$ 148	$ 15,988

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 June 30, 2017 and December 31, 2016. The recorded investment in loans excludes accrued interest and unearned discounts due to their insignificance.

June 30, 2017

	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	$ 0	$ 2,151	$ 0	$ 0	$ 0	$ 0	$ 2,151
Collectively evaluated for impairment	5,442	3,862	1,670	2,068	142	185	13,369
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	121	1,628	0	0	0	0	1,749
Total ending allowance balance	$ 5,563	$ 7,641	$ 1,670	$ 2,068	$ 142	$ 185	$ 17,269
Loans:							
Individually evaluated for impairment	$ 630	$ 6,094	$ 0	$ 0	$ 0	$ 0	$ 6,724
Collectively evaluated for impairment	633,655	602,031	684,294	76,476	6,080	2,359	2,004,895

Acquired with deteriorated credit quality	0	1,501	0	0	0	0	1,501
Modified in a troubled debt restructuring	2,551	8,636	0	0	0	0	11,187
Total ending loans balance	$ 636,836	$ 618,262	$ 684,294	$ 74,476	$ 6,080	$ 2,359	$ 2,024,307

December 31, 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	$ 188	$ 996	$ 0	$ 0	$ 0	$ 0	$ 1,184
Collectively evaluated for impairment	5,115	3,543	1,653	2,215	93	188	12,807
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	125	2,214	0	0	0	0	2,339
Total ending allowance balance	$ 5,428	$ 6,753	$ 1,653	$ 2,215	$ 93	$ 188	$ 16,330

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Loans:							
Individually evaluated for impairment	$ 775	$ 6,176	$ 0	$ 0	$ 0	$ 0	$ 6,951
Collectively evaluated for impairment	564,180	557,932	652,883	74,816	6,046	595	1,856,452
Acquired with deteriorated credit quality	205	1,527	0	0	0	0	1,732
Modified in a troubled debt restructuring	2,640	9,191	0	0	0	0	11,831
Total ending loans balance	$ 567,800	$ 574,826	$ 652,883	$ 74,816	$ 6,046	$ 595	$ 1,876,966

Commercial and commercial real estate loans greater than $250,000 are individually evaluated for impairment. The following tables present information related to loans individually evaluated for impairment, including loans modified in troubled debt restructurings, by portfolio segment as of June 30, 2017 and December 31, 2016 and for the six months ended June 30, 2017 and 2016:

June 30, 2017

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 1,168	$ 1,168	$ 121
Commercial mortgage	10,167	9,836	3,779
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,856	2,013	0
Commercial mortgage	5,629	4,894	0
Residential real estate	0	0	0
Total	$ 19,820	$ 17,911	$ 3,900

December 31, 2016

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 1,644	$ 1,644	$ 313
Commercial mortgage	16,200	15,367	3,210
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,669	1,771	0
Commercial mortgage	0	0	0
Residential real estate	0	0	0
Total	$ 20,513	$ 18,782	$ 3,523

The unpaid principal balance of impaired loans includes the Corporation s recorded investment in the loan and amounts that have been charged off.

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Average	Interest	Cash Basis	Average	Interest	Cash Basis

	Recorded Investment	Income Recognized	Interest Recognized	Recorded Investment	Income Recognized	Interest Recognized
With an allowance recorded:						
Commercial, industrial, and agricultural	$ 1,398	$ 18	$ 18	$ 3,150	$ 2	$ 2
Commercial mortgage	12,505	71	71	5,309	4	4
Residential real estate	0	0	0	0	0	0
With no related allowance recorded:						
Commercial, industrial, and agricultural	1,833	34	34	2,525	2	2
Commercial mortgage	2,447	67	67	4,458	3	3
Residential real estate	0	0	0	0	0	0
Total	$ 18,183	$ 190	$ 190	$ 15,442	$ 11	$ 11

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	Six Months Ended June 30, 2017			Six Months Ended June 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	$ 1,480	$ 36	$ 36	$ 3,249	$ 2	$ 2
Commercial mortgage	13,459	216	216	5,320	4	4
Residential real estate	0	0	0	83	6	6
With no related allowance recorded:						
Commercial, industrial, and agricultural	1,812	50	50	2,612	2	2
Commercial mortgage	1,631	67	67	4,622	3	3
Residential real estate	0	0	0	0	0	0
Total	$ 18,382	$ 369	$ 369	$ 15,886	$ 17	$ 17

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 June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Nonaccrual	Past Due Over 90 Days Still on Accrual	Nonaccrual	Past Due Over 90 Days Still on Accrual
Commercial, industrial, and agricultural	$ 2,288	$ 0	$ 2,734	$ 0
Commercial mortgages	11,579	0	5,996	0
Residential real estate	5,406	282	5,600	0
Consumer	722	20	999	0
Credit cards	0	12	0	10
Total	$ 19,995	$ 314	$ 15,329	$ 10

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.

The following table presents the aging of the recorded investment in past due loans as of June 30, 2017 and December 31, 2016 by class of loans.

June 30, 2017

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 2,366	$ 464	$ 948	$ 3,778	$ 633,058	$ 636,836
Commercial mortgages	41	0	1,450	1,491	616,771	618,262
Residential real estate	1,851	1,077	4,385	7,313	676,981	684,294
Consumer	517	277	718	1,512	74,964	76,476
Credit cards	28	32	12	72	6,008	6,080
Overdrafts	0	0	0	0	2,359	2,359
Total	$ 4,803	$ 1,850	$ 7,513	$ 14,166	$ 2,010,141	$ 2,024,307

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December 31, 2016

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 1,558	$ 299	$ 1,294	$ 3,151	$ 564,649	$ 567,800
Commercial mortgages	559	0	1,516	2,075	572,751	574,826
Residential real estate	2,155	737	3,710	6,602	646,281	652,883
Consumer	648	890	974	2,512	72,304	74,816
Credit cards	105	0	10	115	5,931	6,046
Overdrafts	0	0	0	0	595	595
Total	$ 5,025	$ 1,926	$ 7,504	$ 14,455	$ 1,862,511	$ 1,876,966

Troubled Debt Restructurings

The terms of certain loans have been modified as troubled debt restructurings. The modification of the terms of such loans included either or both of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents the number of loans, loan balances, and specific reserves for loans that have been restructured in a troubled debt restructuring as of June 30, 2017 and December 31, 2016.

	June 30, 2017			December 31, 2016		
	Number of Loans	Loan Balance	Specific Reserve	Number of Loans	Loan Balance	Specific Reserve
Commercial, industrial, and agricultural	6	$ 2,551	$ 121	7	$ 2,640	$ 125
Commercial mortgages	8	8,636	1,628	8	9,191	2,214
Residential real estate	0	0	0	0	0	0
Consumer	0	0	0	0	0	0
Credit cards	0	0	0	0	0	0
Total	14	$ 11,187	$ 1,749	15	$ 11,831	$ 2,339

There were no loans modified as troubled debt restructurings during the three or six months ended June 30, 2017 or June 30, 2016.

A troubled debt restructured loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. All loans modified in troubled debt restructurings are performing in accordance with their modified terms as of June 30, 2017 and December 31, 2016 and no principal balances were forgiven in connection with the loan restructurings.

In order to determine whether a borrower is experiencing financial difficulty, the Corporation performs an evaluation using its internal underwriting policies of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without a loan modification. The Corporation has no further loan commitments to customers whose loans are classified as a troubled debt restructuring.

Generally, non-performing troubled debt restructurings 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.

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Credit Quality Indicators

The Corporation classifies commercial, industrial, and agricultural loans and commercial mortgage loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Corporation uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Corporation s credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not rated as special mention, substandard, or doubtful are considered to be pass rated loans. All loans included in the following tables have been assigned a risk rating within 12 months of the balance sheet date.

June 30, 2017

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 601,561	$ 9,575	$ 25,700	$ 0	$ 636,836
Commercial mortgages	599,015	3,100	16,147	0	618,262
Total	$ 1,200,576	$ 12,675	$ 41,847	$ 0	$ 1,255,098

December 31, 2016

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 531,320	$ 14,638	$ 21,831	$ 11	$ 567,800
Commercial mortgages	551,474	1,809	21,543	0	574,826
Total	$ 1,082,794	$ 16,447	$ 43,374	$ 11	$ 1,142,626

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate, consumer, and credit card loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential, consumer, and credit card loans based on payment activity as of June 30, 2017 and December 31, 2016:

June 30, 2017			December 31, 2016		
Residential		Credit	Residential		Credit

	Real Estate	Consumer	Cards	Real Estate	Consumer	Cards
Performing	$ 678,606	$ 75,734	$ 6,068	$ 647,283	$ 73,817	$ 6,036
Nonperforming	5,688	742	12	5,600	999	10
Total	$ 684,294	$ 76,476	$ 6,080	$ 652,883	$ 74,816	$ 6,046

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The Corporation s portfolio of residential real estate and consumer loans maintained within Holiday Financial Services Corporation (Holiday) are considered to be subprime loans. Holiday is a subsidiary that offers small balance unsecured and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics than are typical in the Bank s consumer loan portfolio.

Holiday s loan portfolio is summarized as follows at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Consumer	$ 22,011	$ 24,026
Residential real estate	1,142	1,209
Less: unearned discount	(3,478)	(3,430)
Total	$ 19,675	$ 21,805

6. DEPOSITS

Total deposits at June 30, 2017 and December 31, 2016 are summarized as follows (in thousands):

	Percentage Change	June 30, 2017	December 31, 2016
Checking, non-interest bearing	8.3%	$ 313,871	$ 289,922
Checking, interest bearing	3.4%	561,871	543,388
Savings accounts	1.1%	963,885	953,438
Certificates of deposit	2.8%	237,162	230,774
	2.9%	$ 2,076,789	$ 2,017,522

7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per share is computed using the weighted average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation plans. For the three and six months ended June 30, 2017 and 2016, there were no outstanding stock options to include in the diluted earnings per share calculations.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Corporation has determined that its outstanding unvested stock awards are participating securities.

The computation of basic and diluted earnings per share is shown below (in thousands except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Basic earnings per common share computation:				
Net income per consolidated statements of income	$ 6,683	$4,065	$ 13,163	$ 9,084

Net earnings allocated to participating securities	(40)	(27)	(78)	(60)
Net earnings allocated to common stock	$ 6,643	$ 4,038	$ 13,085	$ 9,024
Distributed earnings allocated to common stock	$ 2,507	$ 2,369	$ 5,015	$ 4,737
Undistributed earnings allocated to common stock	4,136	1,669	8,070	4,287

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Net earnings allocated to common stock	$ 6,643	$ 4,038	13,085	$ 9,024
Weighted average common shares outstanding, including shares considered participating securities	15,294	14,460	15,138	14,448
Less: Average participating securities	(88)	(92)	(87)	(86)
Weighted average shares	15,206	14,368	15,051	14,362
Basic earnings per common share	$ 0.44	$ 0.28	$ 0.87	$ 0.63
Diluted earnings per common share computation:				
Net earnings allocated to common stock	$ 6,643	$ 4,038	$ 13,085	$ 9,024
Weighted average shares and dilutive potential common shares	15,206	14,368	15,051	14,362
Diluted earnings per common share	$ 0.44	$ 0.28	$ 0.87	$ 0.63

8. DERIVATIVE INSTRUMENTS

On May 3, 2011, the Corporation executed an interest rate swap agreement with a 5 year term and an effective date of September 15, 2013 in order to hedge cash flows associated with $10 million of a subordinated note that was issued by the Corporation during 2007 and elected cash flow hedge accounting for the agreement. The Corporation s objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments from September 15, 2013 to September 15, 2018 without exchange of the underlying notional amount. At June 30, 2017, the variable rate on the subordinated debt was 2.80% (LIBOR plus 155 basis points) and the Corporation was paying 5.57% (4.02% fixed rate plus 155 basis points).

As of June 30, 2017 and December 31, 2016, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Corporation does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The following tables provide information about the amounts and locations of activity related to the interest rate swaps designated as cash flow hedges within the Corporation s consolidated balance sheet and statement of income as of June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016:

		Fair value as of	
	Balance Sheet Location	June 30, 2017	December 31, 2016
Interest rate contracts	Accrued interest and other liabilities	$ (313)	$ (459)

For the Three Months Ended June 30, 2017	(a)	(b)	(c)	(d)	(e)
Interest rate contracts	$ 40	Interest expense subordinated debentures	($ 74)	Other income	$ 0
For the Six Months Ended June 30, 2017	(a)	(b)	(c)	(d)	(e)
Interest rate contracts	$ 95		($ 149)		$ 0

	Interest expense subordinated debentures	Other income

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For the Three Months Ended June 30, 2016	(a)	(b)	(c)	(d)	(e)
Interest rate contracts	($ 31)	Interest expense subordinated debentures	($ 86)	Other income	$ 0

For the Six Months Ended June 30, 2016	(a)	(b)	(c)	(d)	(e)
Interest rate contracts	$ 5	Interest expense subordinated debentures	($ 176)	Other income	$ 0

(a) Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivative (Effective Portion), net of tax
(b) Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(c) Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(d) Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)