

FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
November 08, 2016

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 September 30, 2016

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

| | |
|--|--------------------|
| OHIO | 34-1371693 |
| (State or other jurisdiction of | (I.R.S. Employer |
| incorporation or organization) | Identification No) |
| 20 South Broad Street Canfield, OH | 44406 |
| (Address of principal executive offices) | (Zip Code) |

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

| Class | Outstanding at October 31, 2016 |
|----------------------------|---------------------------------|
| Common Stock, No Par Value | 27,047,664 shares |

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

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10-Q Certifications

Section 906 Certifications

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) | |
|---|---------------------------|---------------------|
| | September 30, | December 31, |
| (Unaudited) | 2016 | 2015 |
| ASSETS | | |
| Cash and due from banks | \$ 18,739 | \$ 22,500 |
| Federal funds sold and other | 48,633 | 33,514 |
| TOTAL CASH AND CASH EQUIVALENTS | 67,372 | 56,014 |
| Securities available for sale | 368,729 | 394,312 |
| Loans held for sale | 2,148 | 1,769 |
| Loans | 1,395,620 | 1,296,865 |
| Less allowance for loan losses | 10,518 | 8,978 |
| NET LOANS | 1,385,102 | 1,287,887 |
| Premises and equipment, net | 23,502 | 24,190 |
| Goodwill | 36,939 | 35,090 |
| Other intangibles | 8,359 | 7,821 |
| Bank owned life insurance | 29,842 | 29,234 |
| Other assets | 39,015 | 33,585 |
| TOTAL ASSETS | \$ 1,961,008 | \$ 1,869,902 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Noninterest-bearing | \$ 352,441 | \$ 314,650 |
| Interest-bearing | 1,139,724 | 1,094,397 |
| TOTAL DEPOSITS | 1,492,165 | 1,409,047 |
| Short-term borrowings | 216,525 | 225,832 |
| Long-term borrowings | 19,232 | 22,153 |
| Other liabilities | 17,649 | 14,823 |
| TOTAL LIABILITIES | 1,745,571 | 1,671,855 |
| Commitments and contingent liabilities | | |
| Stockholders' Equity: | | |
| Common Stock - Authorized 35,000,000 shares; issued 27,713,811 in 2016 and 27,590,531 in 2015 | 178,027 | 176,287 |
| Retained earnings | 38,266 | 26,316 |
| Accumulated other comprehensive income | 4,001 | 133 |
| Treasury stock, at cost; 666,147 shares in 2016 and 646,247 in 2015 | (4,857) | (4,689) |
| TOTAL STOCKHOLDERS' EQUITY | 215,437 | 198,047 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,961,008 | \$ 1,869,902 |

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(In Thousands except Per Share Data)

| | | | | |
|--|---------------|-------|--------------|-------|
| | For the Three | | For the Nine | |
| | Months Ended | | Months Ended | |
| | Sept. | Sept. | Sept. | Sept. |
| | 30, | 30, | 30, | 30, |

| | | | | |
|--|------|------|------|------|
| | 2016 | 2015 | 2016 | 2015 |
|--|------|------|------|------|

| (Unaudited) | 2016 | 2015 | 2016 | 2015 |
|--|---------------|---------------|---------------|---------------|
| INTEREST AND DIVIDEND INCOME | | | | |
| Loans, including fees | \$ 16,048 | \$ 13,385 | \$ 46,941 | \$ 29,703 |
| Taxable securities | 1,160 | 1,369 | 3,885 | 4,421 |
| Tax exempt securities | 893 | 783 | 2,681 | 2,060 |
| Dividends | 177 | 48 | 403 | 142 |
| Federal funds sold and other interest income | 54 | 9 | 119 | 20 |
| TOTAL INTEREST AND DIVIDEND INCOME | 18,332 | 15,594 | 54,029 | 36,346 |
| INTEREST EXPENSE | | | | |
| Deposits | 858 | 909 | 2,358 | 2,675 |
| Short-term borrowings | 166 | 59 | 485 | 86 |
| Long-term borrowings | 115 | 88 | 357 | 306 |
| TOTAL INTEREST EXPENSE | 1,139 | 1,056 | 3,200 | 3,067 |
| NET INTEREST INCOME | 17,193 | 14,538 | 50,829 | 33,279 |
| Provision for loan losses | 1,110 | 1,220 | 2,880 | 2,520 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 16,083 | 13,318 | 47,949 | 30,759 |
| NONINTEREST INCOME | | | | |
| Service charges on deposit accounts | 1,057 | 929 | 2,979 | 2,204 |
| Bank owned life insurance income | 194 | 184 | 608 | 488 |
| Trust fees | 1,693 | 1,482 | 4,753 | 4,638 |
| Insurance agency commissions | 569 | 130 | 1,001 | 394 |
| Security gains | 31 | 3 | 72 | 48 |
| Retirement plan consulting fees | 561 | 423 | 1,546 | 1,705 |
| Investment commissions | 308 | 332 | 900 | 886 |
| Net gains on sale of loans | 1,063 | 415 | 2,005 | 694 |
| Debit card interchange fees | 653 | 506 | 1,936 | 1,196 |
| Other operating income | 356 | 281 | 1,368 | 878 |
| TOTAL NONINTEREST INCOME | 6,485 | 4,685 | 17,168 | 13,131 |
| NONINTEREST EXPENSES | | | | |
| Salaries and employee benefits | 8,366 | 7,244 | 23,660 | 18,449 |
| Occupancy and equipment | 1,587 | 1,368 | 4,867 | 3,680 |
| State and local taxes | 394 | 400 | 1,181 | 888 |
| Professional fees | 671 | 738 | 1,954 | 1,760 |
| Merger related costs | 31 | 2,499 | 544 | 4,656 |
| Advertising | 383 | 344 | 1,091 | 843 |
| FDIC insurance | 287 | 256 | 856 | 611 |
| Intangible amortization | 421 | 304 | 1,093 | 638 |
| Core processing charges | 738 | 643 | 1,956 | 1,406 |
| Other operating expenses | 2,347 | 1,725 | 7,250 | 4,428 |

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| | | | | |
|--|---------|---------|----------|---------|
| TOTAL NONINTEREST EXPENSES | 15,225 | 15,521 | 44,452 | 37,359 |
| INCOME BEFORE INCOME TAXES | 7,343 | 2,482 | 20,665 | 6,531 |
| INCOME TAXES | 1,967 | 625 | 5,471 | 1,651 |
| NET INCOME | \$5,376 | \$1,857 | \$15,194 | \$4,880 |
| EARNINGS PER SHARE - basic and diluted | \$0.20 | \$0.07 | \$0.56 | \$0.23 |

See accompanying notes

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) | | | |
|--|--|-----------------|---|-----------------|
| | For the Three Months Ended September | | For the Nine Months Ended September | |
| | 30, | 30, | 30, | 30, |
| (Unaudited) | 2016 | 2015 | 2016 | 2015 |
| NET INCOME | \$5,376 | \$ 1,857 | \$15,194 | \$ 4,880 |
| Other comprehensive income (loss): | | | | |
| Net unrealized holding gains (losses) on available for sale securities | (2,350) | 3,557 | 6,021 | 421 |
| Reclassification adjustment for (gains) realized in income | (31) | (3) | (72) | (48) |
| Net unrealized holding gains (losses) | (2,381) | 3,554 | 5,949 | 373 |
| Income tax effect | 833 | (1,244) | (2,081) | (131) |
| Other comprehensive income (loss), net of tax | (1,548) | 2,310 | 3,868 | 242 |
| TOTAL COMPREHENSIVE INCOME | \$3,828 | \$ 4,167 | \$19,062 | \$ 5,122 |

See accompanying notes

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) |
|--|---------------------------|
| | For the |
| | Nine Months Ended |
| (Unaudited) | September 30, 2016 |
| COMMON STOCK | |
| Beginning balance | \$ 176,287 |
| Issued 123,280 shares as part of business combination | 1,138 |
| Stock compensation expense for 383,222 unvested shares | 602 |
| Ending balance | 178,027 |
| RETAINED EARNINGS | |
| Beginning balance | 26,316 |
| Net income | 15,194 |
| Dividends declared at \$.12 per share | (3,244) |
| Ending balance | 38,266 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | |
| Beginning balance | 133 |
| Other comprehensive income | 3,868 |
| Ending balance | 4,001 |
| TREASURY STOCK, AT COST | |
| Beginning balance | (4,689) |
| Purchased 19,900 shares | (168) |
| Ending balance | (4,857) |
| TOTAL STOCKHOLDERS' EQUITY | \$ 215,437 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) | |
|--|------------------------------|------------------|
| | Nine Months Ended | |
| | September 30, | September 30, |
| (Unaudited) | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 15,194 | \$ 4,880 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for loan losses | 2,880 | 2,520 |
| Depreciation and amortization | 2,745 | 1,689 |
| Net amortization of securities | 1,677 | 1,510 |
| Security gains | (72) | (48) |
| Gain on land and building sales, net | (238) | 0 |
| Stock compensation expense | 602 | 275 |
| Loss on sale of other real estate owned | 240 | 18 |
| Earnings on bank owned life insurance | (608) | (488) |
| Origination of loans held for sale | (48,165) | (12,295) |
| Proceeds from loans held for sale | 49,791 | 12,934 |
| Net gains on sale of loans | (2,005) | (694) |
| Net change in other assets and liabilities | (8,221) | (2,978) |
| NET CASH FROM OPERATING ACTIVITIES | 13,820 | 7,323 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from maturities and repayments of securities available for sale | 46,483 | 44,047 |
| Proceeds from sales of securities available for sale | 11,480 | 58,240 |
| Purchases of securities available for sale | (26,848) | (41,346) |
| Loan originations and payments, net | (100,396) | (91,721) |
| Proceeds from sale of other real estate owned | 497 | 552 |
| Purchase of bank owned life insurance | 0 | (6,000) |
| Proceeds from land and building sales | 479 | 0 |
| Additions to premises and equipment | (512) | (1,160) |
| Net cash (paid) received in business combinations | (1,073) | 21,303 |
| NET CASH FROM INVESTING ACTIVITIES | (69,890) | (16,085) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | 83,118 | (9,115) |
| Net change in short-term borrowings | (9,307) | 38,756 |
| Repayment of long-term borrowings | (2,971) | (12,109) |
| Cash dividends paid | (3,244) | (1,876) |
| Proceeds from reissuance of treasury shares | 0 | 22 |
| Repurchase of common shares | (168) | 0 |
| NET CASH FROM FINANCING ACTIVITIES | 67,428 | 15,678 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 11,358 | 6,916 |
| Beginning cash and cash equivalents | 56,014 | 27,428 |
| Ending cash and cash equivalents | \$ 67,372 | \$ 34,344 |

| | | |
|---|---------|-----------|
| Supplemental cash flow information: | | |
| Interest paid | \$3,196 | \$ 2,955 |
| Income taxes paid | \$6,800 | \$ 1,780 |
| Supplemental noncash disclosures: | | |
| Transfer of loans to other real estate | \$301 | \$ 734 |
| Security purchases not settled | \$1,176 | \$ 0 |
| Issuance of stock for business combinations | \$1,138 | \$ 59,048 |

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (“Company”) is a Financial Holding Company registered under the Bank Holding Company Act of 1956, as amended. The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield (“Bank”). The Bank acquired Bowers Insurance Agency, Inc. (“Bowers”) and consolidated the activity of the Bowers with Farmers National Insurance (“Insurance”) during 2016. The Company acquired First National Bank of Orrville (“First National Bank”) a subsidiary of National Bancshares Corporation (“NBOH”) and National Community Bank (“FNCB”) a subsidiary of Tri-State Banc, Inc. (“Tri-State”) during 2015 and consolidated all activity of both acquisitions within the Bank. Farmers National Captive, Inc. (“Captive”) was formed during the third quarter of 2016 and is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and its subsidiaries. The Captive pools resources with thirteen other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves and to provide insurance where not currently available or economically feasible in today’s insurance market place. The consolidated financial statements also include the accounts of the Farmers National Bank of Canfield’s subsidiaries; Farmers National Insurance and Farmers of Canfield Investment Co. (“Investments”). The Company provides trust services through its subsidiary, Farmers Trust Company (“Trust”), retirement consulting services through National Associates, Inc. (“NAI”) and insurance services through the Bank’s subsidiary, Insurance. The consolidated financial statements include the accounts of the Company, the Bank and its subsidiaries, along with the Trust, NAI and Captive. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2015 Annual Report to Shareholders included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year. Certain items included in the prior period financial statements were reclassified to conform to the current period presentation. There was no effect on net income or total stockholders’ equity.

Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. Operations are managed and financial performance is primarily aggregated and reported in three lines of business, the Bank segment, the Trust segment and the Retirement Consulting segment.

Comprehensive Income:

Comprehensive income(loss) consists of net income and other comprehensive income. Other comprehensive income(loss) consists of unrealized gains and losses on securities available for sale and changes in the funded status of the post-retirement health plan, which are recognized as separate components of equity, net of tax effects. For all periods presented there was no change in the funded status of the post-retirement health plan.

New Accounting Standards:

In June 2016, the FASB issued ASU 2016-13: Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of

expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for public companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on the Consolidated Financial Statements.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09: Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 simplify several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the impact of ASU 2016-02 on its Consolidated Financial Statements and disclosures.

In February 2016, FASB issued ASU 2016-02 (Topic 842): Leases. The main objective of ASU 2016-02 is to provide users with useful, transparent, and complete information about leasing transactions. ASU 2016-02 requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet in order to increase transparency and comparability among organizations. Under the updated guidance, lessees will be required to recognize a right-to-use asset and a liability to make a lease payment and disclose key information about leasing arrangements. ASU 2016-02 is effective for public companies for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact to its Consolidated Financial Statements.

In January 2016, FASB issued ASU 2016-01: Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective of ASU 2016-01 is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-01 on its Consolidated Financial Statements.

Business Combinations:

On June 1, 2016, the Bank completed the acquisition of the Bowers Insurance Agency, Inc., and merged all activity of Bowers with Insurance, the Bank's wholly-owned insurance agency subsidiary. The Bowers group is engaged in selling insurance including commercial, farm, home, and auto property/casualty insurance and will help to meet the needs of all the Company's customers. The transaction involved both cash and 123,280 shares of stock totaling \$3.2 million, including up to \$1.2 million of future payments, contingent upon Bowers meeting performance targets, with an estimated fair value at the acquisition date of \$880 thousand. The acquisition is part of the Company's plan to increase the levels of noninterest income and to complement the existing insurance services currently being offered.

Goodwill of \$1.8 million, which is recorded on the balance sheet, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill was determined not to be deductible for income tax purposes. The fair value of other intangible assets of \$1.6 million is related to client relationships, company name and noncompetition agreements.

The following table summarizes the consideration paid for Bowers and the amounts of the assets acquired and liabilities assumed on the closing date of the acquisition.

| (In Thousands of Dollars) | |
|--|---------|
| Consideration | |
| Cash | \$1,137 |
| Stock | 1,138 |
| Contingent consideration | 880 |
| Fair value of total consideration transferred | \$3,155 |
| Fair value of assets acquired | |
| Cash | \$64 |
| Premises and equipment | 290 |
| Other assets | 34 |
| Total assets acquired | 388 |
| Fair value of liabilities assumed | 124 |
| Net assets acquired | \$264 |
| Assets and liabilities arising from acquisition | |
| Identified intangible assets | 1,630 |
| Deferred tax liability | (588) |
| Goodwill created | 1,849 |
| Total net assets acquired | \$3,155 |

Valuation of some assets acquired or created including intangible assets and goodwill are preliminary and could be subject to change.

On October 1, 2015, the Company completed the acquisition of Tri-State, the parent company of FNCB. The transaction involved both cash and 1,296,517 shares of stock totaling \$14.3 million. Pursuant to the terms of the merger agreement, common shareholders of Tri-State received 1.747 common shares, without par value, of the Company or \$14.20 in cash, for each common share of Tri-State, subject to proration provisions specified in the merger agreement that provide for a targeted aggregate split of total consideration consisting of 75% shares of Farmers' common stock and 25% cash. Preferred shareholders of Tri-State received \$13.60 in cash for each share of Series A Preferred Stock, without par value, of Tri-State.

Goodwill of \$2.8 million, which is recorded on the balance sheet, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill was determined not to be deductible for income tax purposes. The fair value of other intangible assets of \$1.2 million is related to core deposits.

On June 19, 2015, the Company completed the acquisition of all outstanding stock of NBOH, the parent company of First National Bank of Orrville. The transaction involved both cash and 7,262,955 shares of stock totaling \$74.8 million. First National Bank of Orrville branches became branches of Farmers National Bank of Canfield. Pursuant to the Agreement, each shareholder of NBOH received either \$32.15 per share in cash or 4.034 shares of Farmers' common stock, subject to an overall limitation of 80% of the shares of NBOH being exchanged for stock and 20% for cash.

Goodwill of \$26.7 million, which is recorded on the balance sheet, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill was determined not to be deductible for income tax purposes. The fair value of other intangible assets of \$4.4 million is related to core deposits.

The acquisitions provide an attractive mix of additional loans and deposits and helps the Company achieve additional operating scale that will drive earnings per share growth. In addition to the financial benefits, the merger is a significant step in the Company's strategy to expand its footprint.

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The following table summarizes the consideration paid for Tri-State and NBOH and the amounts of the assets acquired and liabilities assumed on the closing date of each acquisition.

| | (In Thousands of Dollars) | |
|--|---------------------------|----------|
| | Tri-State | NBOH |
| Consideration | | |
| Cash | \$3,607 | \$15,732 |
| Stock | 10,733 | 59,048 |
| Fair value of total consideration transferred | \$14,340 | \$74,780 |
| Fair value of assets acquired | | |
| Cash and due from financial institutions | \$13,553 | \$37,035 |
| Securities available for sale | 48,300 | 51,340 |
| Loans, net | 66,374 | 430,035 |
| Premises and equipment | 1,935 | 6,105 |
| Bank owned life insurance | 3,274 | 2,891 |
| Core deposit intangible | 1,173 | 4,409 |
| Other assets | 1,329 | 7,996 |
| Total assets | 135,938 | 539,811 |
| Fair value of liabilities assumed | | |
| Deposits | 114,342 | 423,661 |
| Short-term borrowings | 0 | 65,537 |
| Long-term borrowings | 2,002 | 0 |
| Accrued interest payable and other liabilities | 8,072 | 2,514 |
| Total liabilities | 124,416 | 491,712 |
| Net assets acquired | \$11,522 | \$48,099 |
| Goodwill created | 2,818 | 26,681 |
| Total net assets acquired | \$14,340 | \$74,780 |

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to the financial instruments acquired from Tri-State will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans. Purchase credit impaired loans would have shown evidence of credit deterioration since origination.

The following table presents pro forma information as if the above three acquisitions that occurred during 2015 and 2016 actually took place at the beginning of 2015. The pro forma information includes adjustments for merger related costs, amortization of intangibles arising from the transaction and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effective on the assumed date.

| | For Three | | For Nine Months | |
|--|--------------|--------------|-----------------|--------------|
| | Months Ended | Months Ended | Months Ended | Months Ended |
| (In thousands of dollars except per share results) | Sept. 30, | Sept. 30, | Sept. 30, | Sept. 30, |
| | 2016 | 2015 | 2016 | 2015 |
| | | | | |

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| | | | | |
|--------------------------------------|----------|----------|----------|----------|
| Net interest income | \$17,193 | \$15,621 | \$50,829 | \$46,065 |
| Net income | \$5,376 | \$4,523 | \$15,214 | \$10,060 |
| Basic and diluted earnings per share | \$0.20 | \$0.17 | \$0.56 | \$0.39 |

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Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at September 30, 2016 and December 31, 2015 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

| (In Thousands of Dollars) | Amortized Cost | Gross | Gross | Fair Value |
|--|-------------------|---------------------|----------------------|-------------------|
| | | Unrealized Gains | Unrealized Losses | |
| September 30, 2016 | | | | |
| U.S. Treasury and U.S. government sponsored entities | \$ 5,876 | \$ 92 | \$ 0 | \$ 5,968 |
| State and political subdivisions | 138,143 | 3,211 | (71) | 141,283 |
| Corporate bonds | 1,344 | 19 | (1) | 1,362 |
| Mortgage-backed securities - residential | 176,919 | 3,038 | (303) | 179,654 |
| Collateralized mortgage obligations - residential | 22,377 | 78 | (242) | 22,213 |
| Small Business Administration | 17,999 | 46 | (59) | 17,986 |
| Equity securities | 127 | 138 | (2) | 263 |
| Totals | \$ 362,785 | \$ 6,622 | \$ (678) | \$ 368,729 |

| (In Thousands of Dollars) | Amortized Cost | Gross | Gross | Fair Value |
|--|-------------------|---------------------|----------------------|-------------------|
| | | Unrealized Gains | Unrealized Losses | |
| December 31, 2015 | | | | |
| U.S. Treasury and U.S. government sponsored entities | \$ 11,120 | \$ 38 | \$ (52) | \$ 11,106 |
| State and political subdivisions | 136,781 | 2,354 | (412) | 138,723 |
| Corporate bonds | 1,134 | 5 | (5) | 1,134 |
| Mortgage-backed securities - residential | 197,289 | 1,433 | (2,135) | 196,587 |
| Collateralized mortgage obligations - residential | 28,035 | 0 | (870) | 27,165 |
| Small Business Administration | 19,755 | 1 | (457) | 19,299 |
| Equity securities | 203 | 127 | (32) | 298 |
| Totals | \$ 394,317 | \$ 3,958 | \$ (3,963) | \$ 394,312 |

Proceeds from the sale of portfolio securities were \$2.3 million during the three and \$11.5 million during the nine month period ended September 30, 2016. Gross gains of \$31 thousand and \$224 thousand along with gross losses of \$0 and \$152 thousand were realized on these sales during the three and nine month periods ended September 30, 2016. Proceeds from the sale of portfolio securities were \$3.4 million during the three month period and \$58.2 million during the nine month period ended September 30, 2015. Gross gains were \$30 thousand and \$139 thousand along with gross losses of \$27 thousand and \$91 thousand during the same three and nine month periods ended September 30, 2015.

The amortized cost and fair value of the debt securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

| (In Thousands of Dollars) | September 30, 2016 | |
|---|--------------------|------------------|
| | Amortized Cost | Fair Value |
| Maturity | | |
| Within one year | \$8,345 | \$8,385 |
| One to five years | 59,688 | 61,045 |
| Five to ten years | 69,008 | 70,709 |
| Beyond ten years | 8,322 | 8,474 |
| Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities | 217,295 | 219,853 |
| Total | \$362,658 | \$368,466 |

The following table summarizes the investment securities with unrealized losses at September 30, 2016 and December 31, 2015, aggregated by major security type and length of time in a continuous unrealized loss position. Unrealized losses for U.S. Treasury and U.S. government sponsored entities for more than twelve months, rounded to less than \$1 thousand in 2016.

| (In Thousands of Dollars) | Less than 12 Months | | 12 Months or Longer | | Total | |
|--|---------------------|------------------|---------------------|------------------|-----------------|------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| | | | | | | |
| September 30, 2016 | | | | | | |
| Available-for-sale | | | | | | |
| U.S. Treasury and U.S. government sponsored entities | \$0 | \$ 0 | \$508 | \$ 0 | \$508 | \$ 0 |
| State and political subdivisions | 4,802 | (67) | 297 | (4) | 5,099 | (71) |
| Corporate bonds | 103 | (1) | 0 | 0 | 103 | (1) |
| Mortgage-backed securities - residential | 5,827 | (24) | 26,202 | (279) | 32,029 | (303) |
| Collateralized mortgage obligations - residential | 1,657 | (3) | 11,758 | (239) | 13,415 | (242) |
| Small Business Administration | 3,914 | (6) | 8,550 | (53) | 12,464 | (59) |
| Equity securities | 138 | (2) | 0 | 0 | 138 | (2) |
| Total | \$16,441 | \$ (103) | \$47,315 | \$ (575) | \$63,756 | \$ (678) |

| (In Thousands of Dollars) | Less than 12 Months | | 12 Months or Longer | | Total | |
|--|---------------------|--------------------|---------------------|--------------------|------------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| | | | | | | |
| December 31, 2015 | | | | | | |
| Available-for-sale | | | | | | |
| U.S. Treasury and U.S. government sponsored entities | \$6,044 | \$ (51) | \$199 | \$ (1) | \$6,243 | \$ (52) |
| State and political subdivisions | 22,016 | (167) | 12,635 | (245) | 34,651 | (412) |
| Corporate bonds | 102 | (1) | 478 | (4) | 580 | (5) |
| Mortgage-backed securities - residential | 79,301 | (1,044) | 40,794 | (1,091) | 120,095 | (2,135) |
| Collateralized mortgage obligations - residential | 14,342 | (169) | 12,695 | (701) | 27,037 | (870) |
| Small Business Administration | 0 | 0 | 19,237 | (457) | 19,237 | (457) |
| Equity securities | 88 | (32) | 0 | 0 | 88 | (32) |
| Total | \$121,893 | \$ (1,464) | \$86,038 | \$ (2,499) | \$207,931 | \$ (3,963) |

Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities are generally evaluated for OTTI under FASB Accounting Standards Codification (“ASC”) 320, Investments – Debt and Equity Securities. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In analyzing an issuer’s financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, or U.S. government sponsored enterprises, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment, and is based on the information available to management at a point in

time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income or loss. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

As of September 30, 2016, the Company's security portfolio consisted of 467 securities, 43 of which were in an unrealized loss position. The majority of the unrealized losses on the Company's securities are related to its holdings of mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities, and Small Business Administration securities as discussed below.

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Unrealized losses on debt securities issued by state and political subdivisions have not been recognized into income. These securities have maintained their investment grade ratings and management does not have the intent and does not expect to be required to sell these securities before their anticipated recovery. The fair value is expected to recover as the securities approach their maturity date.

All of the Company's holdings of collateralized mortgage obligations and residential mortgage-backed securities were issued by U.S. government-sponsored entities. Unrealized losses on these securities have not been recognized into income. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, the issues are guaranteed by the issuing entity which the U.S. government has affirmed its commitment to support, and because the Company does not have the intent to sell these residential mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be OTTI.

Management does not believe any unrealized losses on Small Business Administration securities represent an other-than-temporary impairment. The securities are issued and backed by the full faith and credit of the U.S. government and the Company does not have the intent and does not anticipate that it will be required to sell these securities before their anticipated recovery. The fair value of these securities is expected to recover as they approach their maturity.

Loans:

Loan balances were as follows:

| | September 30, 2016 | December 31, 2015 |
|-----------------------------|--------------------------|-------------------------|
| (In Thousands of Dollars) | | |
| Originated loans: | | |
| Commercial real estate | | |
| Owner occupied | \$ 137,086 | \$ 113,160 |
| Non-owner occupied | 151,208 | 139,502 |
| Other | 62,609 | 50,855 |
| Commercial | 193,447 | 157,447 |
| Residential real estate | | |
| 1-4 family residential | 213,620 | 179,657 |
| Home equity lines of credit | 56,053 | 41,171 |
| Consumer | | |
| Indirect | 150,436 | 127,335 |
| Direct | 23,976 | 17,325 |
| Other | 7,021 | 4,508 |
| Subtotal | \$995,456 | \$830,960 |
| | 3,301 | 2,731 |

| | | |
|-----------------------------|-------------|-------------|
| Net deferred loan costs | | |
| Total originated loans | \$998,757 | \$833,691 |
| Acquired loans: | | |
| Commercial real estate | | |
| Owner occupied | \$122,989 | \$131,673 |
| Non-owner occupied | 26,773 | 28,045 |
| Other | 14,887 | 23,536 |
| Commercial | 54,395 | 73,621 |
| Residential real estate | | |
| 1-4 family residential | 118,018 | 133,701 |
| Home equity lines of credit | 35,768 | 40,929 |
| Consumer | | |
| Direct | 23,802 | 31,465 |
| Other | 231 | 204 |
| Total acquired loans | \$396,863 | \$463,174 |
| Allowance for loan losses | (10,518) | (8,978) |
| Net loans | \$1,385,102 | \$1,287,887 |

Purchased credit impaired loans

As part of the NBOH acquisition the Company acquired various loans that displayed evidence of deterioration of credit quality since origination and which was probable that all contractually required payments would not be collected. The carrying amounts and contractually required payments of these loans which are included in the loan balances above are summarized in the following tables:

| | September 30, 2016 | December 31, 2015 |
|---|--------------------------|-------------------------|
| (In Thousands of Dollars) | | |
| Commercial real estate | | |
| Owner occupied | \$ 899 | \$ 986 |
| Non-owner occupied | 444 | 501 |
| Commercial | 1,233 | 1,576 |
| Total outstanding balance | \$ 2,576 | \$ 3,063 |
| Carrying amount, net of allowance of \$0 in 2016 and \$31 in 2015 | \$ 2,083 | \$ 2,184 |

Accretable yield, or income expected to be collected, is shown in the table below:

| | Nine Months Ended September 30, 2016 |
|---------------------------------|--|
| (In Thousands of Dollars) | |
| Beginning balance | \$ 323 |
| New loans purchased | 0 |
| Accretion of income | (56) |
| Ending balance | \$ 267 |

The key assumptions considered include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income and principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. There were no adjustments to forecasted cash flows that impacted the allowance for loan losses for the nine months ended September 30, 2016.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine month periods ended September 30, 2016 and 2015:

Three Months Ended September 30, 2016

| (In Thousands of Dollars) | Commercial | | Residential | | | Total |
|--------------------------------|-------------|------------|-------------|----------|-------------|----------|
| | Real Estate | Commercial | Real Estate | Consumer | Unallocated | |
| Allowance for loan losses | | | | | | |
| Beginning balance | \$ 3,210 | \$ 1,634 | \$ 2,081 | \$ 2,444 | \$ 351 | \$9,720 |
| Provision for loan losses | 138 | 188 | 105 | 423 | 256 | 1,110 |
| Loans charged off | (8) | 0 | (87) | (467) | 0 | (562) |
| Recoveries | 1 | 0 | 48 | 201 | 0 | 250 |
| Total ending allowance balance | \$ 3,341 | \$ 1,822 | \$ 2,147 | \$ 2,601 | \$ 607 | \$10,518 |

Nine Months Ended September 30, 2016

| (In Thousands of Dollars) | Commercial | | Residential | | | Total |
|--------------------------------|-------------|------------|-------------|----------|-------------|----------|
| | Real Estate | Commercial | Real Estate | Consumer | Unallocated | |
| Allowance for loan losses | | | | | | |
| Beginning balance | \$ 3,127 | \$ 1,373 | \$ 1,845 | \$ 2,160 | \$ 473 | \$8,978 |
| Provision for loan losses | 516 | 464 | 376 | 1,390 | 134 | 2,880 |
| Loans charged off | (315) | (37) | (165) | (1,442) | 0 | (1,959) |
| Recoveries | 13 | 22 | 91 | 493 | 0 | 619 |
| Total ending allowance balance | \$ 3,341 | \$ 1,822 | \$ 2,147 | \$ 2,601 | \$ 607 | \$10,518 |

Three Months Ended September 30, 2015

| (In Thousands of Dollars) | Commercial | | Residential | | | Total |
|--------------------------------|-------------|------------|-------------|----------|-------------|---------|
| | Real Estate | Commercial | Real Estate | Consumer | Unallocated | |
| Allowance for loan losses | | | | | | |
| Beginning balance | \$ 2,633 | \$ 1,280 | \$ 1,548 | \$ 1,825 | \$ 0 | \$7,286 |
| Provision for loan losses | 365 | 84 | 83 | 530 | 158 | 1,220 |
| Loans charged off | 0 | (36) | (46) | (549) | 0 | (631) |
| Recoveries | 103 | 8 | 60 | 248 | 0 | 419 |
| Total ending allowance balance | \$ 3,101 | \$ 1,336 | \$ 1,645 | \$ 2,054 | \$ 158 | \$8,294 |

Nine Months Ended September 30, 2015

| (In Thousands of Dollars) | Commercial | | Residential | | | Total |
|--------------------------------|-------------|------------|-------------|----------|-------------|---------|
| | Real Estate | Commercial | Real Estate | Consumer | Unallocated | |
| Allowance for loan losses | | | | | | |
| Beginning balance | \$ 2,676 | \$ 1,420 | \$ 1,689 | \$ 1,663 | \$ 184 | \$7,632 |
| Provision for loan losses | 820 | 197 | 142 | 1,387 | (26) | 2,520 |
| Loans charged off | (520) | (291) | (287) | (1,648) | 0 | (2,746) |
| Recoveries | 125 | 10 | 101 | 652 | 0 | 888 |
| Total ending allowance balance | \$ 3,101 | \$ 1,336 | \$ 1,645 | \$ 2,054 | \$ 158 | \$8,294 |

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2016 and December 31, 2015. The recorded investment in loans includes the unpaid principal balance and unamortized loan origination fees and costs, but excludes accrued interest receivable, which is not considered to be material:

September 30, 2016

| (In Thousands of Dollars) | Commercial | | Residential | | | Total |
|---|-------------|------------|-------------|----------|-------------|--------|
| | Real Estate | Commercial | Real | Consumer | Unallocated | |
| | | | Estate | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | \$ 61 | \$ 5 | \$ 74 | \$ 4 | \$ 0 | \$ 144 |
| Collectively evaluated for impairment | 3,251 | 1,722 | 2,073 | 2,597 | 607 | 10,250 |
| Acquired loans | 29 | 95 | 0 | 0 | 0 | 124 |
| Acquired with deteriorated credit quality | 0 | 0 | 0 | 0 | 0 | 0 |

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| | | | | | | |
|---|------------|------------|------------|-----------|--------|-------------|
| Total ending allowance balance | \$ 3,341 | \$ 1,822 | \$ 2,147 | \$2,601 | \$ 607 | \$10,518 |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ 3,795 | \$ 613 | \$ 3,415 | \$103 | \$ 0 | \$7,926 |
| Loans collectively evaluated for impairment | 346,730 | 192,710 | 265,825 | 186,398 | 0 | 991,663 |
| Acquired loans | 162,923 | 53,268 | 153,730 | 24,027 | 0 | 393,948 |
| Acquired with deteriorated credit quality | 1,174 | 909 | 0 | 0 | 0 | 2,083 |
| Total ending loans balance | \$ 514,622 | \$ 247,500 | \$ 422,970 | \$210,528 | \$ 0 | \$1,395,620 |

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December 31, 2015

| (In Thousands of Dollars) | Commercial | | Residential | | | Unallocated Total |
|---|-------------|------------|-------------|------------|--------|-------------------|
| | Real Estate | Commercial | Real Estate | Consumer | | |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | \$ 429 | \$ 5 | \$ 63 | \$ 0 | \$ 0 | \$ 497 |
| Collectively evaluated for impairment | 2,698 | 1,337 | 1,782 | 2,160 | 473 | 8,450 |
| Acquired loans | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquired with deteriorated credit quality | 0 | 31 | 0 | 0 | 0 | 31 |
| Total ending allowance balance | \$ 3,127 | \$ 1,373 | \$ 1,845 | \$ 2,160 | \$ 473 | \$ 8,978 |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ 5,853 | \$ 712 | \$ 3,414 | \$ 103 | \$ 0 | \$ 10,082 |
| Loans collectively evaluated for impairment | 296,866 | 156,415 | 217,023 | 153,305 | 0 | 823,609 |
| Acquired loans | 181,987 | 72,673 | 174,630 | 31,669 | 0 | 460,959 |
| Acquired with deteriorated credit quality | 1,267 | 948 | 0 | 0 | 0 | 2,215 |
| Total ending loans balance | \$ 485,973 | \$ 230,748 | \$ 395,067 | \$ 185,077 | \$ 0 | \$ 1,296,865 |

The following tables present information related to impaired loans by class of loans as of September 30, 2016 and December 31, 2015:

| (In Thousands of Dollars) | Unpaid Principal | | Allowance for Loan Losses |
|-------------------------------------|------------------|---------------------|---------------------------|
| | Balance | Investment Recorded | Allocated |
| September 30, 2016 | | | |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | \$ 1,901 | \$ 1,383 | \$ 0 |
| Non-owner occupied | 334 | 333 | 0 |
| Commercial | 341 | 319 | 0 |
| Residential real estate | | | |
| 1-4 family residential | 2,517 | 2,271 | 0 |
| Home equity lines of credit | 190 | 174 | 0 |
| Consumer | 197 | 96 | 0 |
| Subtotal | 5,480 | 4,576 | 0 |
| With an allowance recorded: | | | |
| Commercial real estate | | | |

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| | | | |
|-----------------------------|----------|----------|--------|
| Owner occupied | 948 | 946 | 57 |
| Non-owner occupied | 1,133 | 1,133 | 33 |
| Commercial | 296 | 294 | 100 |
| Residential real estate | | | |
| 1-4 family residential | 890 | 885 | 73 |
| Home equity lines of credit | 85 | 85 | 1 |
| Consumer | 7 | 7 | 4 |
| Subtotal | 3,359 | 3,350 | 268 |
| Total | \$ 8,839 | \$ 7,926 | \$ 268 |

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| | Unpaid Principal | Recorded Investment | Allowance for Loan Losses Allocated |
|-------------------------------------|---------------------|------------------------|---|
| (In Thousands of Dollars) | Balance | Investment | Allocated |
| December 31, 2015 | | | |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | \$ 2,956 | \$ 2,436 | \$ 0 |
| Non-owner occupied | 343 | 342 | 0 |
| Commercial | 834 | 631 | 0 |
| Residential real estate | | | |
| 1-4 family residential | 2,575 | 2,310 | 0 |
| Home equity lines of credit | 283 | 268 | 0 |
| Consumer | 214 | 103 | 0 |
| Subtotal | 7,205 | 6,090 | 0 |
| With an allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | 1,597 | 1,595 | 379 |
| Non-owner occupied | 1,480 | 1,480 | 50 |
| Commercial | 81 | 81 | 5 |
| Residential real estate | | | |
| 1-4 family residential | 769 | 749 | 61 |
| Home equity lines of credit | 87 | 87 | 2 |
| Subtotal | 4,014 | 3,992 | 497 |
| Total | \$ 11,219 | \$ 10,082 | \$ 497 |

The following tables present the average recorded investment in impaired loans by class and interest income recognized by loan class for the three and nine month periods ended September 30, 2016 and 2015:

| | Average Recorded Investment | | Interest Income Recognized For Three Months Ended | |
|-------------------------------------|--|------|--|------|
| | For Three Months Ended September 30, | | September 30, | |
| (In Thousands of Dollars) | 2016 | 2015 | 2016 | 2015 |
| With no related allowance recorded: | | | | |
| Commercial real estate | | | | |

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| | | | | |
|-----------------------------|---------|----------|-------|-------|
| Owner occupied | \$1,426 | \$1,809 | \$22 | \$42 |
| Non-owner occupied | 333 | 374 | 0 | 10 |
| Commercial | 322 | 395 | 3 | 6 |
| Residential real estate | | | | |
| 1-4 family residential | 2,250 | 2,267 | 37 | 41 |
| Home equity lines of credit | 238 | 270 | 2 | 4 |
| Consumer | 78 | 63 | 4 | 4 |
| Subtotal | 4,647 | 5,178 | 68 | 107 |
| With an allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | 694 | 2,324 | 9 | 12 |
| Non-owner occupied | 1,138 | 1,503 | 15 | 20 |
| Commercial | 149 | 336 | 1 | 1 |
| Residential real estate | | | | |
| 1-4 family residential | 889 | 860 | 10 | 9 |
| Home equity lines of credit | 85 | 88 | 1 | 1 |
| Consumer | 5 | 0 | 0 | 0 |
| Subtotal | 2,960 | 5,111 | 36 | 43 |
| Total | \$7,607 | \$10,289 | \$104 | \$150 |

| | Average Recorded Investment | | Interest Income Recognized For Nine Months Ended September 30, | |
|--|---|----------|---|-------|
| | For Nine Months Ended September 30, | | 2016 2015 | |
| (In Thousands of Dollars) | 2016 | 2015 | 2016 | 2015 |
| With no related allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | \$1,666 | \$2,115 | \$60 | \$87 |
| Non-owner occupied | 334 | 380 | 4 | 23 |
| Commercial | 422 | 422 | 13 | 17 |
| Residential real estate | | | | |
| 1-4 family residential | 2,264 | 2,167 | 108 | 110 |
| Home equity lines of credit | 235 | 265 | 8 | 11 |
| Consumer | 93 | 78 | 10 | 11 |
| Subtotal | 5,014 | 5,427 | 203 | 259 |
| With an allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | 1,064 | 1,987 | 27 | 60 |
| Non-owner occupied | 1,336 | 1,520 | 53 | 60 |
| Commercial | 103 | 636 | 3 | 3 |
| Residential real estate | | | | |
| 1-4 family residential | 828 | 917 | 30 | 29 |
| Home equity lines of credit | 86 | 89 | 3 | 3 |
| Consumer | 2 | 0 | 0 | 0 |
| Subtotal | 3,419 | 5,149 | 116 | 155 |
| Total | \$8,433 | \$10,576 | \$319 | \$414 |

Cash basis interest recognized during the three and nine month periods ended September 30, 2016 and 2015 was materially equal to interest income recognized.

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

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

| (In Thousands of Dollars) | September 30, 2016 | | December 31, 2015 | |
|--------------------------------|-----------------------|-------------------|----------------------|-------------------|
| | Loans Past Due | | Loans Past Due | |
| | 90 Days or More | | 90 Days or More | |
| | Still Nonaccruing | Still Accruing | Still Nonaccruing | Still Accruing |
| Originated loans: | | | | |
| Commercial real estate | | | | |
| Owner occupied | \$ 1,050 | \$ 0 | \$ 3,313 | \$ 0 |
| Non-owner occupied | 332 | 0 | 345 | 0 |
| Commercial | 525 | 0 | 541 | 73 |
| Residential real estate | | | | |
| 1-4 family residential | 1,964 | 305 | 2,406 | 336 |
| Home equity lines of credit | 168 | 24 | 127 | 112 |
| Consumer | | | | |
| Indirect | 264 | 222 | 266 | 297 |
| Direct | 19 | 2 | 30 | 3 |
| Other | 0 | 20 | 0 | 24 |
| Total originated loans | \$ 4,322 | \$ 573 | \$ 7,028 | \$ 845 |
| Acquired loans: | | | | |
| Commercial real estate | | | | |
| Owner occupied | \$ 490 | \$ 0 | \$ 126 | \$ 18 |
| Other | 41 | 0 | 92 | 0 |
| Commercial | 1,193 | 0 | 1,068 | 0 |
| Residential real estate | | | | |
| 1-4 family residential | 400 | 706 | 458 | 467 |
| Home equity lines of credit | 137 | 32 | 125 | 7 |
| Consumer | | | | |
| Direct | 80 | 29 | 161 | 50 |
| Total acquired loans | \$ 2,341 | \$ 767 | \$ 2,030 | \$ 542 |
| Total loans | \$ 6,663 | \$ 1,340 | \$ 9,058 | \$ 1,387 |

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The following tables present the aging of the recorded investment in past due loans as of September 30, 2016 and December 31, 2015 by class of loans:

| | 30-59 | 60-89 | | | | |
|--------------------------------|----------------|----------------|-----------------|-----------------|--------------------|--------------------|
| | Days | Days | 90 Days or More | Total | | |
| | Past | Past | Past Due | Past | Loans Not | |
| (In Thousands of Dollars) | Due | Due | and Nonaccrual | Due | Past Due | Total |
| September 30, 2016 | | | | | | |
| Originated loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | \$0 | \$0 | \$ 1,050 | \$1,050 | \$135,704 | \$136,754 |
| Non-owner occupied | 16 | 0 | 332 | 348 | 150,497 | 150,845 |
| Other | 0 | 0 | 0 | 0 | 62,373 | 62,373 |
| Commercial | 28 | 40 | 525 | 593 | 192,513 | 193,106 |
| Residential real estate | | | | | | |
| 1-4 family residential | 3,201 | 772 | 2,269 | 6,242 | 206,846 | 213,088 |
| Home equity lines of credit | 257 | 52 | 192 | 501 | 55,595 | 56,096 |
| Consumer | | | | | | |
| Indirect | 2,097 | 577 | 486 | 3,160 | 152,186 | 155,346 |
| Direct | 295 | 104 | 21 | 420 | 23,707 | 24,127 |
| Other | 29 | 79 | 20 | 128 | 6,894 | 7,022 |
| Total originated loans: | \$5,923 | \$1,624 | \$ 4,895 | \$12,442 | \$986,315 | \$998,757 |
| Acquired loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | \$483 | \$121 | \$ 490 | \$1,094 | \$121,895 | \$122,989 |
| Non-owner occupied | 0 | 0 | 0 | 0 | 26,773 | 26,773 |
| Other | 0 | 0 | 41 | 41 | 14,846 | 14,887 |
| Commercial | 178 | 37 | 1,193 | 1,408 | 52,987 | 54,395 |
| Residential real estate | | | | | | |
| 1-4 family residential | 1,466 | 262 | 1,106 | 2,834 | 115,184 | 118,018 |
| Home equity lines of credit | 64 | 37 | 169 | 270 | 35,498 | 35,768 |
| Consumer | | | | | | |
| Direct | 660 | 132 | 109 | 901 | 22,901 | 23,802 |
| Other | 0 | 0 | 0 | 0 | 231 | 231 |
| Total acquired loans | \$2,851 | \$589 | \$ 3,108 | \$6,548 | \$390,315 | \$396,863 |
| Total loans | \$8,774 | \$2,213 | \$ 8,003 | \$18,990 | \$1,376,630 | \$1,395,620 |

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| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due and Nonaccrual | Total Due Past Due | Loans Not Past Due | Total |
|---------------------------|------------------------------|------------------------------|---|-----------------------------|--------------------------|-----------|
| (In Thousands of Dollars) | | | | | | |
| December 31, 2015 | | | | | | |
| Originated loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | \$ 34 | \$ 0 | \$ 3,313 | \$3,347 | \$109,532 | \$112,879 |
| Non-owner occupied | 0 | 0 | 345 | | | |