FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
May 05, 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 March 31, 2016

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

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 x 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 x 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 x |
| Non-accelerated filer ¨ | Smaller reporting company ¨ |

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

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 April 30, 2016 |
|---|---|
| Common Stock, No Par Value | 26,924,384 shares |

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) | |
|---|---|---|
| | March 31, | December 31, |
| (Unaudited) | 2016 | 2015 |
| ASSETS | | |
| Cash and due from banks | $ 19,771 | $ 22,500 |
| Federal funds sold and other | 14,848 | 33,514 |
| TOTAL CASH AND CASH EQUIVALENTS | 34,619 | 56,014 |
| Securities available for sale | 387,093 | 394,312 |
| Loans held for sale | 488 | 1,769 |
| Loans | 1,315,501 | 1,296,865 |
| Less allowance for loan losses | 9,390 | 8,978 |
| NET LOANS | 1,306,111 | 1,287,887 |
| Premises and equipment, net | 24,052 | 24,190 |
| Goodwill | 35,090 | 35,090 |
| Other intangibles | 7,484 | 7,821 |
| Bank owned life insurance | 29,446 | 29,234 |
| Other assets | 35,924 | 33,585 |
| TOTAL ASSETS | $ 1,860,307 | $ 1,869,902 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Noninterest-bearing | $ 334,391 | $ 314,650 |
| Interest-bearing | 1,111,491 | 1,094,397 |
| TOTAL DEPOSITS | 1,445,882 | 1,409,047 |
| Short-term borrowings | 175,617 | 225,832 |
| Long-term borrowings | 21,961 | 22,153 |
| Other liabilities | 12,865 | 14,823 |
| TOTAL LIABILITIES | 1,656,325 | 1,671,855 |
| Commitments and contingent liabilities | | |
| Stockholders' Equity: | | |
| Common Stock - Authorized 35,000,000 shares; issued 27,590,531 in 2016 and 2015 | 176,488 | 176,287 |
| Retained earnings | 30,036 | 26,316 |
| Accumulated other comprehensive income | 2,315 | 133 |
| Treasury stock, at cost; 666,147 shares in 2016 and 646,247 in 2015 | (4,857 ) | (4,689 ) |
| TOTAL STOCKHOLDERS' EQUITY | 203,982 | 198,047 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,860,307 | $ 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 Months Ended | |
|---|---|---|
| | March 31, | March 31, |
| (Unaudited) | 2016 | 2015 |
| INTEREST AND DIVIDEND INCOME | | |
| Loans, including fees | $15,270 | $7,684 |
| Taxable securities | 1,437 | 1,647 |
| Tax exempt securities | 889 | 615 |
| Dividends | 113 | 48 |
| Federal funds sold and other interest income | 38 | 5 |
| TOTAL INTEREST AND DIVIDEND INCOME | 17,747 | 9,999 |
| INTEREST EXPENSE | | |
| Deposits | 707 | 887 |
| Short-term borrowings | 175 | 11 |
| Long-term borrowings | 118 | 109 |
| TOTAL INTEREST EXPENSE | 1,000 | 1,007 |
| NET INTEREST INCOME | 16,747 | 8,992 |
| Provision for loan losses | 780 | 450 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 15,967 | 8,542 |
| NONINTEREST INCOME | | |
| Service charges on deposit accounts | 935 | 603 |
| Bank owned life insurance income | 212 | 139 |
| Trust fees | 1,496 | 1,647 |
| Insurance agency commissions | 139 | 146 |
| Security gains | 0 | 10 |
| Retirement plan consulting fees | 489 | 504 |
| Investment commissions | 236 | 298 |
| Net gains on sale of loans | 402 | 123 |
| Other operating income | 1,037 | 567 |
| TOTAL NONINTEREST INCOME | 4,946 | 4,037 |
| NONINTEREST EXPENSES | | |
| Salaries and employee benefits | 7,554 | 5,542 |
| Occupancy and equipment | 1,664 | 1,111 |
| State and local taxes | 393 | 245 |
| Professional fees | 529 | 476 |
| Merger related cost | 289 | 245 |
| Advertising | 345 | 217 |
| FDIC insurance | 283 | 177 |
| Intangible amortization | 337 | 167 |
| Core processing charges | 638 | 381 |

| | | |
|---|---|---|
| Other operating expenses | 2,412 | 1,190 |
| TOTAL NONINTEREST EXPENSES | 14,444 | 9,751 |
| INCOME BEFORE INCOME TAXES | 6,469 | 2,828 |
| INCOME TAXES | 1,671 | 617 |
| NET INCOME | $4,798 | $2,211 |
| EARNINGS PER SHARE - basic and diluted | $0.18 | $0.12 |

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 | |
|---|---|---|
| | March 31, | March 31, |
| (Unaudited) | 2016 | 2015 |
| NET INCOME | $4,798 | $2,211 |
| Other comprehensive income: | | |
| Net unrealized holding gains on available for sale securities | 3,357 | 2,310 |
| Reclassification adjustment for (gains) realized in income | 0 | (10) |
| Net unrealized holding gains | 3,357 | 2,300 |
| Income tax effect | (1,175) | (806) |
| Other comprehensive income, net of tax | 2,182 | 1,494 |
| TOTAL COMPREHENSIVE INCOME | $6,980 | $3,705 |

See accompanying notes

CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| (Unaudited) | (In Thousands of Dollars) For the Three Months Ended March 31, 2016 |
|---|---|
| COMMON STOCK | |
| Beginning balance | $ 176,287 |
| Stock compensation expense for 383,222 unvested shares | 201 |
| Ending balance | 176,488 |
| | |
| RETAINED EARNINGS | |
| Beginning balance | 26,316 |
| Net income | 4,798 |
| Dividends declared at $.04 per share | (1,078) |
| Ending balance | 30,036 |
| | |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | |
| Beginning balance | 133 |
| Other comprehensive income | 2,182 |
| Ending balance | 2,315 |
| | |
| TREASURY STOCK, AT COST | |
| Beginning balance | (4,689) |
| Purchased 19,900 shares | (168) |
| Ending balance | (4,857) |
| TOTAL STOCKHOLDERS' EQUITY | $ 203,982 |

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) Three Months Ended | |
|---|---|---|
| | March 31, | March 31, |
| (Unaudited) | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $4,798 | $2,211 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for loan losses | 780 | 450 |
| Depreciation and amortization | 904 | 467 |
| Net amortization of securities | 530 | 363 |
| Security gains | 0 | (10) |
| Stock compensation expense | 201 | 58 |
| Loss on sale of other real estate owned | 200 | 13 |
| Earnings on bank owned life insurance | (212) | (139) |
| Origination of loans held for sale | (12,885) | (3,509) |
| Proceeds from loans held for sale | 14,568 | 3,997 |
| Net gains on sale of loans | (402) | (123) |
| Net change in other assets and liabilities | (5,983) | (2,913) |
| NET CASH FROM OPERATING ACTIVITIES | 2,499 | 865 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from maturities and repayments of securities available for sale | 12,013 | 11,420 |
| Proceeds from sales of securities available for sale | 10 | 40,913 |
| Purchases of securities available for sale | (1,977) | (23,182) |
| Loan originations and payments, net | (19,192) | (10,413) |
| Proceeds from sale of other real estate owned | 375 | 113 |
| Purchase of bank owned life insurance | 0 | (6,000) |
| Additions to premises and equipment | (281) | (189) |
| NET CASH FROM INVESTING ACTIVITIES | (9,052) | 12,662 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | 36,835 | (6,295) |
| Net change in short-term borrowings | (50,215) | 3,082 |
| Repayment of long-term borrowings | (216) | (25,261) |
| New advances for long-term borrowings | 0 | 15,000 |
| Cash dividends paid | (1,078) | (552) |
| Repurchase of common shares | (168) | 0 |
| NET CASH FROM FINANCING ACTIVITIES | (14,842) | (14,026) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (21,395) | (499) |
| Beginning cash and cash equivalents | 56,014 | 27,428 |
| Ending cash and cash equivalents | $34,619 | $26,929 |
| Supplemental cash flow information: | | |
| Interest paid | $974 | $1,031 |

| | | |
|---|---|---|
| Income taxes paid | $1,000 | $300 |
| Supplemental noncash disclosures: | | |
| Transfer of loans to other real estate | $188 | $122 |
| Security purchases not settled | $0 | $7,298 |

See accompanying notes

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. ("Company") is a one-bank 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 Company acquired First National Bank of Orrville ("First National Bank") a subsidiary of National Bancshares Corporation ("NBOH") and 1st National Community Bank ("FNCB") a subsidiary of Tri-State 1st Banc, Inc. ("Tri-State") during 2015 and consolidated all activity of both acquisitions within the Bank. The consolidated financial statements also include the accounts of the Farmers National Bank of Canfield's subsidiaries; Farmers National Insurance ("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 Trust and NAI. 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 consists of net income and other comprehensive income. Other comprehensive income 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 March 2016, FASB issued Accounting Standards Update (ASU) 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The Board is issuing this Update as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this Update involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition, the amendments in this Update eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. This ASU is the final version of Proposed Accounting Standards Update—Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which has been deleted. Management is currently evaluating the impact of the adoption of this guidance on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity's leasing activities. The amendments in this Update create Topic 842 Leases, and supersede the leases requirements in Topic 840 Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. This ASU is the final version of Proposed Accounting Standards Update (Revised) 2013-270—Leases (Topic 842), which has been deleted. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also 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 in accordance with the fair value option for financial instruments. In addition the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This Accounting Standards Update is the final version of Proposed Accounting Standards Update 2013-220—Financial Instruments—Overall (Subtopic 825-10) and Proposed Accounting Standards Update 2013-221—Financial Instruments—Overall (Subtopic 825-10). The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements.

Business Acquisitions:

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.

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 both acquisitions that occurred during 2015 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 Months |
|---|---|

| (In thousands of dollars except per share results) | Ended March 31, 2015 |
|---|---|
| Net interest income | $14,992 |
| Net income | $3,996 |
| Basic and diluted earnings per share | $0.16 |

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Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at March 31, 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 Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2016 | | | | |
| U.S. Treasury and U.S. government sponsored entities | $ 10,235 | $ 62 | $ (3 ) | $ 10,294 |
| State and political subdivisions | 136,503 | 2,691 | (99 ) | 139,095 |
| Corporate bonds | 1,134 | 15 | 0 | 1,149 |
| Mortgage-backed securities - residential | 189,492 | 2,306 | (1,064 ) | 190,734 |
| Collateralized mortgage obligations - residential | 26,957 | 10 | (491 ) | 26,476 |
| Small Business Administration | 19,216 | 1 | (161 ) | 19,056 |
| Equity securities | 204 | 122 | (37 ) | 289 |
| Totals | $ 383,741 | $ 5,207 | $ (1,855 ) | $ 387,093 |

| (In Thousands of Dollars) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| 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 $10 thousand during the three month period ended March 31, 2016. Gross gains of $1 thousand and gross losses of $1 thousand were realized on these sales during the three month period ended March 31, 2016. Proceeds from the sale of portfolio securities were $40.9 million during the three month period ended March 31, 2015. Gross gains were $73 thousand along with gross losses of $63 thousand during the same three month period ended March 31, 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.

| | March 31, 2016 | |
|---|---|---|
| (In Thousands of Dollars) | Amortized Cost | Fair Value |
| Maturity | | |
| Within one year | $16,598 | $16,704 |
| One to five years | 68,090 | 69,282 |
| Five to ten years | 54,801 | 56,129 |
| Beyond ten years | 8,383 | 8,423 |
| Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities | 235,665 | 236,266 |
| Total | $383,537 | $386,804 |

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The following table summarizes the investment securities with unrealized losses at March 31, 2016 and December 31, 2015, aggregated by major security type and length of time in a continuous unrealized loss position.

| (In Thousands of Dollars) | Less than 12 Months Fair Value | Unrealized Loss | 12 Months or Longer Fair Value | Unrealized Loss | Total Fair Value | Unrealized Loss |
|---|---|---|---|---|---|---|
| March 31, 2016 | | | | | | |
| Available-for-sale | | | | | | |
| U.S. Treasury and U.S. government sponsored entities | $1,668 | $ (3) | $200 | $ 0 | $1,868 | $ (3) |
| State and political subdivisions | 14,045 | (90) | 566 | (9) | 14,611 | (99) |
| Mortgage-backed securities - residential | 23,062 | (124) | 48,845 | (940) | 71,907 | (1,064) |
| Collateralized mortgage obligations - residential | 7,655 | (21) | 12,455 | (470) | 20,110 | (491) |
| Small Business Administration | 10,037 | (19) | 8,961 | (142) | 18,998 | (161) |
| Equity securities | 112 | (37) | 0 | 0 | 112 | (37) |
| Total | $56,579 | $ (294) | $71,027 | $ (1,561) | $127,606 | $ (1,855) |

| (In Thousands of Dollars) | Less than 12 Months Fair Value | Unrealized Loss | 12 Months or Longer Fair Value | Unrealized Loss | Total 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 March 31, 2016, the Company's security portfolio consisted of 470 securities, 97 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.

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:

| (In Thousands of Dollars) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Originated loans: | | |
| Commercial real estate | | |
| Owner occupied | $112,454 | $113,160 |
| Non-owner occupied | 150,137 | 139,502 |
| Other | 50,002 | 50,855 |
| Commercial | 168,686 | 157,447 |
| Residential real estate | | |
| 1-4 family residential | 192,001 | 179,657 |
| Home equity lines of credit | 43,985 | 41,171 |
| Consumer | | |
| Indirect | 127,118 | 127,335 |
| Direct | 19,965 | 17,325 |
| Other | 4,708 | 4,508 |
| Subtotal | $869,056 | $830,960 |
| Net deferred loan costs | 2,698 | 2,731 |
| | (9,376) | (8,947) |

| | | |
|---|---|---|
| Allowance for loan losses | | |
| Total originated loans | $862,378 | $824,744 |
| Acquired loans: | | |
| Commercial real estate | | |
| Owner occupied | $132,512 | $131,673 |
| Non-owner occupied | 27,102 | 28,045 |
| Other | 19,397 | 23,536 |
| Commercial | 65,683 | 73,621 |
| Residential real estate | | |
| 1-4 family residential | 130,545 | 133,701 |
| Home equity lines of credit | 39,508 | 40,929 |
| Consumer | | |
| Direct | 28,725 | 31,465 |
| Other | 275 | 204 |
| Subtotal | $443,747 | $463,174 |
| Allowance for loan losses | (14 ) | (31 ) |
| Total acquired loans | 443,733 | 463,143 |
| Net loans | $1,306,111 | $1,287,887 |

Certain loan categories have been reclassified in the current presentation.  The reclassifications had no effect on net income or stockholders' equity.

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:

| (In Thousands of Dollars) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Commercial real estate | | |
| Owner occupied | $696 | $ 986 |
| Non-owner occupied | 477 | 501 |
| Commercial | 1,273 | 1,576 |
| Total outstanding balance | $2,446 | $ 3,063 |
| Carrying amount, net of allowance of $14 in 2016 and $31 in 2015 | $1,902 | $ 2,184 |

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

| (In Thousands of Dollars) | March 31, 2016 |
|---|---|
| Beginning balance | $ 323 |
| New loans purchased | 0 |
| Accretion of income | (18 ) |
| Ending balance | $ 305 |

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 three months ended March 31, 2016.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three month periods ended March 31, 2016 and 2015:

Three Months Ended March 31, 2016

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses | | | | | | |
| Beginning balance | $ 3,127 | $ 1,373 | $ 1,845 | $ 2,160 | $ 473 | $8,978 |
| Provision for loan losses | 43 | 64 | 75 | 446 | 152 | 780 |
| Loans charged off | 0 | 0 | (34) | (544) | 0 | (578) |
| Recoveries | 11 | 15 | 28 | 156 | 0 | 210 |
| Total ending allowance balance | $ 3,181 | $ 1,452 | $ 1,914 | $ 2,218 | $ 625 | $9,390 |

Three Months Ended March 31, 2015

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses | | | | | | |
| Beginning balance | $ 2,676 | $ 1,420 | $ 1,689 | $ 1,663 | $ 184 | $7,632 |
| Provision for loan losses | 232 | (70) | 10 | 352 | (74) | 450 |
| Loans charged off | (4) | 0 | (81) | (533) | 0 | (618) |
| Recoveries | 13 | 1 | 22 | 223 | 0 | 259 |
| Total ending allowance balance | $ 2,917 | $ 1,351 | $ 1,640 | $ 1,705 | $ 110 | $7,723 |

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 March 31, 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:

March 31, 2016

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | $ 418 | $ 5 | $ 59 | $ 0 | $ 0 | $ 482 |
| Collectively evaluated for impairment | 2,763 | 1,433 | 1,855 | 2,218 | 625 | 8,894 |
| Acquired loans | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquired with deteriorated credit quality | 0 | 14 | 0 | 0 | 0 | 14 |
| Total ending allowance balance | $ 3,181 | $ 1,452 | $ 1,914 | $ 2,218 | $ 625 | $ 9,390 |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | $ 5,444 | $ 670 | $ 3,354 | $ 88 | $ 0 | $ 9,556 |
| Loans collectively evaluated for impairment | 306,334 | 167,728 | 232,190 | 155,946 | 0 | 862,198 |
| Acquired loans | 178,030 | 64,748 | 170,053 | 29,000 | 0 | 441,831 |
| Acquired with deteriorated credit quality | 981 | 935 | 0 | 0 | 0 | 1,916 |
| Total ending loans balance | $ 490,789 | $ 234,081 | $ 405,597 | $ 185,034 | $ 0 | $ 1,315,501 |

December 31, 2015

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| 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 March 31, 2016 and December 31, 2015:

| (In Thousands of Dollars) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| March 31, 2016 | | | |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | $ 2,582 | $ 2,062 | $ 0 |
| Non-owner occupied | 336 | 335 | 0 |
| Commercial | 793 | 590 | 0 |
| Residential real estate | | | |
| 1-4 family residential | 2,540 | 2,275 | 0 |
| Home equity lines of credit | 248 | 233 | 0 |
| Consumer | 173 | 88 | 0 |
| Subtotal | 6,672 | 5,583 | 0 |
| | | | |
| With an allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | 1,587 | 1,585 | 373 |
| Non-owner occupied | 1,463 | 1,462 | 45 |
| Commercial | 80 | 80 | 5 |
| Residential real estate | | | |
| 1-4 family residential | 780 | 760 | 57 |
| Home equity lines of credit | 86 | 86 | 2 |
| Subtotal | 3,996 | 3,973 | 482 |
| Total | $ 10,668 | $ 9,556 | $ 482 |

| (In Thousands of Dollars) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses 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 month periods ended March 31, 2016 and 2015:

| (In Thousands of Dollars) | Average Recorded Investment For Three Months Ended March 31, 2016 | 2015 | Interest Income Recognized For Three Months Ended March 31, 2016 | 2015 |
|---|---|---|---|---|
| With no related allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | $2,307 | $2,311 | $10 | $16 |
| Non-owner occupied | 336 | 387 | 4 | 6 |
| Commercial | 614 | 463 | 5 | 6 |
| Residential real estate | | | | |
| 1-4 family residential | 2,292 | 2,125 | 38 | 31 |
| Home equity lines of credit | 240 | 251 | 3 | 3 |
| Consumer | 116 | 91 | 3 | 4 |
| Subtotal | 5,905 | 5,628 | 63 | 66 |
| | | | | |
| With an allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | 1,589 | 2,870 | 9 | 24 |
| Non-owner occupied | 1,469 | 1,537 | 19 | 20 |
| Commercial | 80 | 1,117 | 1 | 1 |
| Residential real estate | | | | |
| 1-4 family residential | 749 | 983 | 9 | 9 |
| Home equity lines of credit | 86 | 90 | 1 | 1 |
| Subtotal | 3,973 | 6,597 | 39 | 55 |
| Total | $9,878 | $12,225 | $102 | $121 |

Cash basis interest recognized during the three month periods ended March 31, 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.

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 March 31, 2016 and December 31, 2015:

| | March 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (In Thousands of Dollars) | Nonaccrual | Loans Past Due 90 Days or More Still Accruing | Nonaccrual | Loans Past Due 90 Days or More Still Accruing |
| Originated loans: | | | | |
| Commercial real estate | | | | |
| Owner occupied | $2,943 | $ 0 | $3,313 | $ 0 |
| Non-owner occupied | 336 | 2 | 345 | 0 |
| Commercial | 571 | 0 | 541 | 73 |
| Residential real estate | | | | |
| 1-4 family residential | 2,194 | 451 | 2,406 | 336 |
| Home equity lines of credit | 131 | 60 | 127 | 112 |
| Consumer | | | | |
| Indirect | 216 | 122 | 266 | 297 |
| Direct | 19 | 0 | 30 | 3 |
| Other | 0 | 10 | 0 | 24 |
| Total originated loans | $6,410 | $ 645 | $7,028 | $ 845 |
| Acquired loans: | | | | |
| Commercial real estate | | | | |
| Owner occupied | $138 | $ 0 | $126 | $ 18 |
| Other | 75 | 0 | 92 | 0 |
| Commercial | 976 | 0 | 1,068 | 0 |
| Residential real estate | | | | |
| 1-4 family residential | 447 | 752 | 458 | 467 |
| Home equity lines of credit | 124 | 7 | 125 | 7 |
| Consumer | | | | |
| Direct | 136 | 0 | 161 | 50 |
| Total acquired loans | $1,896 | $ 759 | $2,030 | $ 542 |
| Total loans | $8,306 | $ 1,404 | $9,058 | $ 1,387 |

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

| (In Thousands of Dollars) | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due and Nonaccrual | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| March 31, 2016 | | | | | | |
| Originated loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $182 | $0 | $ 2,943 | $3,125 | $109,067 | $112,192 |
| Non-owner occupied | 0 | 0 | 338 | 338 | 149,417 | 149,755 |
| Other | 0 | 0 | 0 | 0 | 49,831 | 49,831 |
| Commercial | 87 | 48 | 571 | 706 | 167,692 | 168,398 |
| Residential real estate | | | | | | |
| 1-4 family residential | 1,571 | 1,307 | 2,645 | 5,523 | 185,987 | 191,510 |
| Home equity lines of credit | 318 | 4 | 191 | 513 | 43,521 | 44,034 |
| Consumer | | | | | | |
| Indirect | 1,423 | 312 | 338 | 2,073 | 129,117 | 131,190 |
| Direct | 227 | 41 | 19 | 287 | 19,848 | 20,135 |
| Other | 17 | 12 | 10 | 39 | 4,670 | 4,709 |
| Total originated loans: | $3,825 | $1,724 | $ 7,055 | $12,604 | $859,150 | $871,754 |
| Acquired loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $500 | $523 | $ 138 | $1,161 | $131,351 | $132,512 |
| Non-owner occupied | 71 | 0 | 0 | 71 | 27,031 | 27,102 |
| Other | 0 | 0 | 75 | 75 | 19,322 | 19,397 |
| Commercial | 567 | 775 | 976 | 2,318 | 63,365 | 65,683 |
| Residential real estate | | | | | | |
| 1-4 family residential | 749 | 668 | 1,199 | 2,616 | 127,929 | 130,545 |
| Home equity lines of credit | 86 | 62 | 131 | 279 | 39,229 | 39,508 |
| Consumer | | | | | | |
| Direct | 470 | 50 | 136 | 656 | 28,069 | 28,725 |
| Other | 2 | 0 | 0 | 2 | 273 | 275 |
| Total acquired loans | $2,445 | $2,078 | $ 2,655 | $7,178 | $436,569 | $443,747 |
| Total loans | $6,270 | $3,802 | $ 9,710 | $19,782 | $1,295,719 | $1,315,501 |

| (In Thousands of Dollars) | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due and Nonaccrual | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| 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 | 345 | 138,824 | 139,169 |
| Other | 112 | 0 | 0 | 112 | 50,559 | 50,671 |
| Commercial | 0 | 0 | 614 | 614 | 156,513 | 157,127 |
| Residential real estate | | | | | | |
| 1-4 family residential | 1,694 | 402 | 2,742 | 4,838 | 174,376 | 179,214 |
| Home equity lines of credit | 62 | 5 | 239 | 306 | 40,917 | 41,223 |
| Consumer | | | | | | |
| Indirect | 2,059 | 525 | 563 | 3,147 | 128,280 | 131,427 |
| Direct | 311 | 5 | 33 | 349 | 17,124 | 17,473 |
| Other | 13 | 10 | 24 | 47 | 4,461 | 4,508 |
| Total originated loans | $4,285 | $947 | $ 7,873 | $13,105 | $820,586 | $833,691 |
| Acquired loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $669 | $0 | $ 144 | $813 | $130,860 | $131,673 |
| Non-owner occupied | 0 | 0 | 0 | 0 | 28,045 | 28,045 |
| Other | 0 | 0 | 92 | 92 | 23,444 | 23,536 |
| Commercial | 276 | 2 | 1,068 | 1,346 | 72,275 | 73,621 |
| Residential real estate | | | | | | |
| 1-4 family residential | 1,994 | 244 | 925 | 3,163 | 130,538 | 133,701 |
| Home equity lines of credit | 78 | 11 | 132 | 221 | 40,708 | 40,929 |
| Consumer | | | | | | |
| Direct | 567 | 56 | 211 | 834 | 30,631 | 31,465 |
| Other | 0 | 0 | 0 | 0 | 204 | 204 |
| Total acquired loans | $3,584 | $313 | $ 2,572 | $6,469 | $456,705 | $463,174 |
| Total loans | $7,869 | $1,260 | $ 10,445 | $19,574 | $1,277,291 | $1,296,865 |

Troubled Debt Restructurings:

Total troubled debt restructurings were $8.8 million and $9.3 million at March 31, 2016 and December 31, 2015, respectively. The Company has allocated $497 thousand and $528 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2016 and December 31, 2015. There were no commitments to lend additional amounts to borrowers with loans that were classified as troubled debt restructurings at March 31, 2016 and at December 31, 2015.

During the three month periods ended March 31, 2016 and 2015, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a legal concession. During 2016, the terms of such loans included a reduction of the stated interest rate of the loan by 1.24% and an extension of the maturity date by 120 months. During the same three month period in 2015, loans modified as trouble debt restructurings had loan maturity dates extended in the range of 9 to 120 months.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month periods ended March 31, 2016 and 2015:

| Three Months Ended March 31, 2016 (In Thousands of Dollars) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Originated loans: | | | |
| Residential real estate | | | |
| 1-4 family residential | 3 | $ 47 | $ 48 |
| Indirect | 8 | 77 | 77 |
| Total originated loans | 11 | 124 | 125 |
| Acquired loans: | | | |
| Consumer | 1 | 33 | 33 |
| Total loans | 12 | $ 157 | $ 158 |

| Three Months Ended March 31, 2015 (In Thousands of Dollars) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Troubled Debt Restructurings: | | | |
| Commercial | 1 | $ 8 | $ 8 |
| Residential real estate | | | |
| 1-4 family residential | 3 | 354 | 354 |
| Home equity lines of credit | 1 | 50 | 50 |
| Indirect | 2 | 36 | 36 |
| Total | 7 | $ 448 | $ 448 |

There were $11 thousand in charge offs and a $11 thousand increase to the provision for loan losses during the three month period ended March 31, 2016, as a result of troubled debt restructurings. There were $35 thousand in charge offs and a $33 thousand increase to the provision for loan losses during the three month period ended March 31, 2015, as a result of troubled debt restructurings.

There was one residential real estate loan and one home equity line of credit for which there was a payment default for both within twelve months following the modification of the troubled debt restructuring during the three month period ended March 31, 2016. These loans were past due at March 31, 2016. There was no provision recorded as a result of the defaults during 2016. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

There was one residential real estate loan modified as a troubled debt restructuring for which there was a payment default within the twelve months following the modification during the three month period ended March 31, 2015. This loan was past due at March 31, 2015. There was a $23 thousand provision to the loan losses as a result of the default during 2015.

Credit Quality Indicators:

The Company categorizes 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 Company establishes a risk rating at origination for all commercial loan and commercial real estate relationships. For relationships over $750 thousand, management monitors the loans on an ongoing basis for any changes in the borrower’s ability to service their debt. Management also affirms the risk ratings for the loans and leases in their respective portfolios on an annual basis. The Company 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 institution’s credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

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. Substandard loans are characterized by the distinct possibility that the institution 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 meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of March 31, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| | | Special | Sub | | |
|---|---|---|---|---|---|
| (In Thousands of Dollars) | Pass | Mention | standard | Doubtful | Total |
| March 31, 2016 | | | | | |
| Originated loans: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | $106,803 | $ 1,053 | $4,336 | $ 0 | $112,192 |
| Non-owner occupied | 146,493 | 444 | 2,818 | 0 | 149,755 |
| Other | 49,542 | 0 | 289 | 0 | 49,831 |
| Commercial | 165,376 | 926 | 2,096 | 0 | 168,398 |
| Total originated loans | $468,214 | $ 2,423 | $9,539 | $ 0 | $480,176 |
| Acquired loans: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | $129,709 | $ 783 | $2,020 | $ 0 | $132,512 |
| Non-owner occupied | 25,975 | 736 | 391 | 0 | 27,102 |
| Other | 18,723 | 476 | 198 | 0 | 19,397 |
| Commercial | 61,053 | 1,594 | 3,036 | 0 | 65,683 |
| Total acquired loans | $235,460 | $ 3,589 | $5,645 | $ 0 | $244,694 |
| Total loans | $703,674 | $ 6,012 | $15,184 | $ 0 | $724,870 |

| | | Special | Sub | | |
|---|---|---|---|---|---|
| (In Thousands of Dollars) | Pass | Mention | standard | Doubtful | Total |
| December 31, 2015 | | | | | |
| Originated loans: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | $107,222 | $ 1,069 | $4,588 | $ 0 | $112,879 |
| Non-owner occupied | 135,847 | 461 | 2,861 | 0 | 139,169 |
| Other | 50,376 | 0 | 295 | 0 | 50,671 |
| Commercial | 154,215 | 939 | 1,973 | 0 | 157,127 |
| Total originated loans | $447,660 | $ 2,469 | $9,717 | $ 0 | $459,846 |
| Acquired loans: | | | | | |
| Commercial real estate | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Owner occupied | $130,028 | $ 0 | $1,645 | $ 0 | $131,673 |
| Non-owner occupied | 26,141 | 1,340 | 564 | 0 | 28,045 |
| Other | 22,843 | 476 | 217 | 0 | 23,536 |
| Commercial | 69,674 | 635 | 3,312 | 0 | 73,621 |
| Total acquired loans | $248,686 | $ 2,451 | $5,738 | $ 0 | $256,875 |
| Total loans | $696,346 | $ 4,920 | $15,455 | $ 0 | $716,721 |

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The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential, consumer indirect and direct loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. In the 1-4 family residential real estate portfolio at March 31, 2016 there were $430 thousand of other real estate owned properties and $791 thousand of properties in foreclosure. Other real estate owned and foreclosure properties were $328 thousand and $857 thousand at December 31, 2015, respectively.

The following table presents the recorded investment in residential, consumer indirect and direct auto loans based on payment activity as of March 31, 2016 and December 31, 2015. Nonperforming loans are loans past due 90 days or more and still accruing interest and nonaccrual loans.

| | Residential Real Estate | | Consumer | | |
|---|---|---|---|---|---|
| (In Thousands of Dollars) | 1-4 Family Residential | Home Equity Lines of Credit | Indirect | Direct | Other |
| March 31, 2016 | | | | | |
| Originated loans: | | | | | |
| Performing | $188,865 | $43,843 | $130,852 | $20,116 | $4,699 |
| Nonperforming | 2,645 | 191 | 338 | 19 | 10 |
| Total originated loans | $191,510 | $44,034 | $131,190 | $20,135 | $4,709 |
| Acquired loans: | | | | | |
| Performing | $129,346 | $39,377 | $0 | $28,589 | $275 |
| Nonperforming | 1,199 | 131 | 0 | 136 | 0 |
| Total acquired loans | 130,545 | 39,508 | 0 | 28,725 | 275 |
| Total loans | $322,055 | $83,542 | $131,190 | $48,860 | $4,984 |

| | Residential Real Estate | | Consumer | | |
|---|---|---|---|---|---|
| (In Thousands of Dollars) | 1-4 Family Residential | Home Equity Lines of Credit | Indirect | Direct | Other |
| December 31, 2015 | | | | | |
| Originated loans: | | | | | |
| Performing | $176,472 | $40,984 | $130,864 | $17,440 | $4,484 |
| Nonperforming | 2,742 | 239 | 563 | 33 | 24 |
| Total originated loans | $179,214 | $41,223 | $131,427 | $17,473 | $4,508 |
| Acquired loans: | | | | | |
| Performing | $132,776 | $40,797 | $0 | $31,254 | $204 |
| Nonperforming | 925 | 132 | 0 | 211 | 0 |
| Total acquired loans | 133,701 | 40,929 | 0 | 31,465 | 204 |
| Total loans | $312,915 | $82,152 | $131,427 | $48,938 | $4,712 |

Interest-Rate Swaps:

The Company uses a program that utilizes interest-rate swaps as part of its asset/liability management strategy. The interest-rate swaps are used to help manage the Company's interest rate risk position and not as derivatives for trading purposes. The notional amount of the interest-rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest-rate swap agreements.

The objective of the interest-rate swaps is to protect the related fixed rate commercial real estate loans from changes in fair value due to changes in interest rates. The Company has a program whereby it lends to its borrowers at a fixed rate with the loan agreement containing a two-way yield maintenance provision, which will be invoked in the event of prepayment of the loan, and is expected to exactly offset the fair value of unwinding the swap. The yield maintenance provision represents an embedded derivative which is bifurcated from the host loan contract and, as such, the swaps and embedded derivatives are not designated as hedges. Accordingly, both instruments are carried at fair value and changes in fair value are reported in current period earnings.

Summary information about these interest-rate swaps at periods ended March 31, 2016 and December 31, 2015 is as follows:

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Notional amounts (In thousands) | $35,299 | $ 30,763 |
| Weighted average pay rate on interest-rate swaps | 4.26 % | 4.25 % |
| Weighted average receive rate on interest-rate swaps | 2.81 % | 2.70 % |
| Weighted average maturity (years) | 4.0 | 4.1 |
| Fair value of combined interest-rate swaps (In thousands) | $1,563 | $ 789 |

The fair value of the yield maintenance provisions and interest-rate swaps is recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. Changes in the fair value of the yield maintenance provisions and interest-rate swaps are reported in earnings, as other noninterest income in the consolidated statements of income. For the three month periods ended March 31, 2016 and 2015 there were no net gains or losses recognized in earnings.

Earnings Per Share:

The computation of basic and diluted earnings per share is shown in the following table:

| | Three Months Ended March, 31, 2016 | 2015 |
|---|---|---|
| Basic EPS | | |
| Net income (In thousands) | $4,798 | $2,211 |
| Weighted average shares outstanding | 27,047,168 | 18,427,901 |
| Basic earnings per share | $0.18 | $0.12 |
| | | |
| Diluted EPS | | |
| Net income (In thousands) | $4,798 | $2,211 |
| Weighted average shares outstanding for basic earnings per share | 27,047,168 | 18,427,901 |
| Dilutive effect of restricted stock awards | 10,670 | 1,408 |
| Weighted average shares for diluted earnings per share | 27,057,838 | 18,429,309 |
| Diluted earnings per share | $0.18 | $0.12 |

There were no restricted stock awards that were considered anti-dilutive for the three month periods ended March 31, 2016 and 2015.

Stock Based Compensation:

During 2012, the Company, with the approval of shareholders, created the 2012 Equity Incentive Plan (the "Plan"). The Plan permits the award of up to 500 thousand shares to the Company's directors and employees to promote the Company's long-term financial success by motivating performance through long-term incentive compensation and to better align the interests of its employees with those of its shareholders. There were 62,242 additional shares granted under the Plan during the three month period ended March 31, 2016. Expense recognized for the Plan was $201 thousand for the three month period ended March 31, 2016. As of March 31, 2016, there was $2.0 million of total unrecognized compensation expense related to the nonvested shares granted under the Plan. The remaining cost is expected to be recognized over 2.8 years. There were 80,918 shares granted and $58 thousand of expense recognized for the Plan for the three month period ended March 31, 2015.

Granted shares are earned upon meeting certain target performance metrics that are measured using extensive performance review scorecards. The main metrics used include earnings per share, return on average assets and the efficiency ratio. The shares have forfeitable dividend rights; as such the shares do not meet the definition of participating shares.

The following is the activity under the Plan during the three months ended March 31, 2016:

| | Restricted Stock Units | |
|---|---|---|
| | Units | Weighted Average Grant Date Fair Value |
| Nonvested at January 1, 2016 | 320,980 | $ 7.88 |
| Granted | 62,242 | 8.98 |
| Vested | 0 | 0.00 |
| Forfeited | 0 | 0.00 |
| Nonvested at March 31, 2016 | 383,222 | $ 8.06 |

Other Comprehensive Income:

The following table represents the detail of other comprehensive income for the three month periods ended March 31, 2016 and 2015.

| | Three Months Ended March 31, 2016 | | |
|---|---|---|---|
| (In Thousands of Dollars) | Pre-tax | Tax | After-Tax |
| Unrealized holding gains on available-for-sale securities during the period | $3,357 | $(1,175) | $ 2,182 |
| Reclassification adjustment for (gains) losses included in net income (1) | 0 | 0 | 0 |
| Net unrealized gains on available-for-sale securities | $3,357 | $(1,175) | $ 2,182 |

| | Three Months Ended March 31, 2015 | | |
|---|---|---|---|
| (In Thousands of Dollars) | Pre-tax | Tax | After-Tax |
| Unrealized holding gains on available-for-sale securities during the period | $2,310 | $(808) | $ 1,502 |
| Reclassification adjustment for (gains) losses included in net income (1) | (10) | 2 | (8) |
| Net unrealized gains on available-for-sale securities | $2,300 | $(806) | $ 1,494 |

(1) Pre-tax reclassification adjustments relating to available-for-sale securities are reported in security gains and the tax impact is included in income tax expense on the consolidated statements of income.

Regulatory Capital Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The new minimum capital requirements associated with the Basel Committee on capital and liquidity regulation (Basel III) are being phased in and began on

January 1, 2015 and will continue through January 1, 2019. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action by regulators that, if undertaken, could have a direct material effect on the financial statements. Management believes as of March 31, 2016, the Company and Bank meet all capital adequacy requirements to which they are subject.

The FDIC and other federal banking regulators revised the risk-based capital requirements applicable to bank holding companies and insured depository institutions, including the Company and the Bank, to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision (“Basel III”).

The common equity tier 1 capital, tier 1 capital and total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. The leverage ratio is calculated by dividing tier 1 capital by adjusted average total assets.

Basel III limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements. The capital conservation buffer will be phased in beginning January 1, 2016 and increasing each year until fully implemented at 2.5% on January 1, 2019. Currently Basel III requires the Company and Bank to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0% and (iv) a minimum leverage ratio of at least 4.0%.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At March 31, 2016 and December 31, 2015, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios are presented below at March 31, 2016 and December 31, 2015:

| | Actual Amount | Ratio | Requirement For Capital Adequacy Purposes: Amount | Ratio | To be Well Capitalized Under Prompt Corrective Action Provisions: Amount | Ratio |
|---|---|---|---|---|---|---|
| March 31, 2016 | | | | | | |
| Common equity tier 1 capital ratio | | | | | | |
| Consolidated | $168,876 | 11.82% | $64,298 | 4.5 % | N/A | N/A |
| Bank | 161,871 | 11.36% | 64,103 | 4.5 % | $92,593 | 6.5 % |
| Total risk based capital ratio | | | | | | |
| Consolidated | 180,431 | 12.63% | 114,307 | 8.0 % | N/A | N/A |
| Bank | 171,261 | 12.02% | 113,961 | 8.0 % | 142,451 | 10.0% |
| Tier I risk based capital ratio | | | | | | |
| Consolidated | 170,999 | 11.97% | 85,730 | 6.0 % | N/A | N/A |
| Bank | 161,871 | 11.36% | 85,471 | 6.0 % | 113,961 | 8.0 % |
| Tier I leverage ratio | | | | | | |
| Consolidated | 170,999 | 9.34 % | 74,039 | 4.0 % | N/A | N/A |
| Bank | 161,871 | 8.82 % | 73,442 | 4.0 % | 91,802 | 5.0 % |
| | | | | | | |
| December 31, 2015 | | | | | | |
| Common equity tier 1 capital ratio | | | | | | |
| Consolidated | $165,451 | 11.59% | $64,245 | 4.5 % | N/A | N/A |
| Bank | 157,396 | 11.08% | 63,938 | 4.5 % | $92,354 | 6.5 % |
| Total risk based capital ratio | | | | | | |
| Consolidated | 176,571 | 12.37% | 114,214 | 8.0 % | N/A | N/A |
| Bank | 166,374 | 11.71% | 113,667 | 8.0 % | 142,084 | 10.0% |
| Tier I risk based capital ratio | | | | | | |
| Consolidated | 167,550 | 11.74% | 85,660 | 6.0 % | N/A | N/A |
| Bank | 157,396 | 11.08% | 85,250 | 6.0 % | 113,667 | 8.0 % |
| Tier I leverage ratio | | | | | | |
| Consolidated | 167,550 | 9.21 % | 72,803 | 4.0 % | N/A | N/A |
| Bank | 157,396 | 8.65 % | 72,770 | 4.0 % | | |