CNB FINANCIAL CORP/PA
Form 10-Q
May 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from _________ to _________

Commission File Number 000-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive offices)

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

The number of shares outstanding of the issuer s common stock as of May 2, 2016

COMMON STOCK NO PAR VALUE PER SHARE: 14,458,818 SHARES

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PART I.

FINANCIAL INFORMATION

PART II.

OTHER INFORMATION

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Forward-Looking Statements

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

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

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Part I Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

	(unaudited) March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 22,815	$ 23,302
Interest bearing deposits with other banks	2,762	3,959
Total cash and cash equivalents	25,577	27,261
Securities available for sale	538,721	546,043
Trading securities	4,692	4,576
Loans held for sale	544	1,381
Loans	1,610,186	1,582,354
Less: unearned discount	(3,878)	(4,556)
Less: allowance for loan losses	(16,738)	(16,737)
Net loans	1,589,570	1,561,061
FHLB and other equity interests	13,675	15,921
Premises and equipment, net	40,044	39,370
Bank owned life insurance	41,302	41,039
Mortgage servicing rights	956	962
Goodwill	27,194	27,194
Core deposit intangible	2,180	2,395
Accrued interest receivable and other assets	16,546	17,933
Total Assets	$ 2,301,001	$ 2,285,136
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 262,480	$ 263,639
Interest bearing deposits	1,627,731	1,551,414
Total deposits	1,890,211	1,815,053
Short-term borrowings	56,905	116,272
FHLB and other long-term borrowings	99,245	104,243
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	25,864	27,035
Total liabilities	2,092,845	2,083,223
Common stock, $0 par value; authorized 50,000,000 shares; issued 14,473,482 shares	0	0
Additional paid in capital	77,188	77,827
Retained earnings	125,935	123,301
Treasury stock, at cost (15,527 shares at March 31, 2016 and 65,052 shares at December 31, 2015)	(274)	(1,114)
Accumulated other comprehensive income	5,307	1,899

Total shareholders equity	208,156	201,913
Total Liabilities and Shareholders Equity	$ 2,301,001	$ 2,285,136

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Three months ended March 31, 2016	Three months ended March 31, 2015
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 18,686	$ 17,496
Securities:		
Taxable	2,355	2,939
Tax-exempt	883	938
Dividends	142	268
Total interest and dividend income	22,066	21,641
INTEREST EXPENSE:		
Deposits	2,016	2,047
Borrowed funds	914	818
Subordinated debentures (includes $89 and $96 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2016 and 2015, respectively)	194	186
Total interest expense	3,124	3,051
NET INTEREST INCOME	18,942	18,590
PROVISION FOR LOAN LOSSES	1,196	943
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,746	17,647
NON-INTEREST INCOME:		
Service charges on deposit accounts	981	1,017
Other service charges and fees	560	624
Wealth and asset management fees	723	766
Net realized gains on available-for-sale securities (includes $0 and $19 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2016 and 2015, respectively)	0	19
Net realized and unrealized losses on trading securities	(34)	(32)
Mortgage banking	171	113
Bank owned life insurance	263	276
Other	479	314
Total non-interest income	3,143	3,097
NON-INTEREST EXPENSES:		
Salaries and benefits	7,491	6,632
Net occupancy expense	1,839	1,799
Amortization of core deposit intangible	215	259
Data processing	1,252	1,037
State and local taxes	492	550
Legal, professional, and examination fees	374	312
Advertising	484	334
FDIC insurance premiums	322	296

Merger costs	42	0
Other	1,669	1,874
Total non-interest expenses	14,180	13,093
INCOME BEFORE INCOME TAXES	6,709	7,651
INCOME TAX EXPENSE (includes ($31) and ($27) income tax expense from reclassification items in 2016 and 2015, respectively)	1,690	2,086
NET INCOME	$ 5,019	$ 5,565
EARNINGS PER SHARE:		
Basic	$ 0.35	$ 0.39
Diluted	$ 0.35	$ 0.39
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.165	$ 0.165

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Dollars in thousands

	Three months ended March 31, 2016	2015
NET INCOME	$ 5,019	$ 5,565
Other comprehensive income, net of tax:		
Net change in fair value of interest rate swap agreements designated as cash flow hedges:		
Unrealized gain on interest rate swaps, net of tax of $45 and $43, respectively	(83)	(81)
Reclassification adjustment for losses recognized in earnings, net of tax of ($31) and ($34), respectively	58	62
	(25)	(19)
Net change in unrealized gains on securities available for sale:		
Unrealized gains on other-than-temporarily impaired securities available for sale:		
Unrealized gains arising during the period, net of tax of $97 and $0, respectively	(181)	0
Unrealized gains on other securities available for sale:		
Unrealized gains arising during the period, net of tax of ($1,946) and ($2,650), respectively	3,614	4,920
Reclassification adjustment for realized gains included in net income, net of tax of $0 and $7, respectively	0	(12)
	3,614	4,908
Other comprehensive income	3,408	4,889
COMPREHENSIVE INCOME	$ 8,427	$ 10,454

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

	Three months ended March 31, 2016	Three months ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,019	$ 5,565
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	1,196	943
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	1,001	1,018
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	(430)	(800)
Net realized gains on sales of available-for-sale securities	0	(19)
Net realized and unrealized losses on trading securities	34	32
Proceeds from sale of trading securities	0	274
Purchase of trading securities	(150)	(303)
Gain on sale of loans	(111)	(81)
Net gains on dispositions of premises and equipment and foreclosed assets	9	18
Proceeds from sale of loans	3,782	1,899
Origination of loans held for sale	(2,864)	(2,622)
Income on bank owned life insurance	(263)	(276)
Stock-based compensation expense	240	157
Contribution of treasury stock	15	12
Changes in:		
Accrued interest receivable and other assets	1,275	2,855
Accrued interest payable and other liabilities	(3,058)	(3,424)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,695	5,248
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, prepayments and calls of available-for-sale securities	12,039	25,021
Proceeds from sales of available-for-sale securities	0	32,949
Purchase of available-for-sale securities	0	(20,763)
Loan origination and payments, net	(28,710)	(96)
Redemption of FHLB and other equity interests	2,246	1,772
Purchase of premises and equipment	(1,424)	(1,435)
Proceeds from the sale of premises and equipment and foreclosed assets	85	4
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	(15,764)	37,452
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Checking, money market and savings accounts	69,719	(14,977)
Certificates of deposit	5,439	35,279
Purchase of treasury stock	(23)	(868)
Cash dividends paid	(2,385)	(2,384)
Repayment of long-term borrowings	(4,998)	(63)
Net change in short-term borrowings	(59,367)	(35,980)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,385	(18,993)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,684)	23,707

CASH AND CASH EQUIVALENTS, Beginning	27,261	27,928
CASH AND CASH EQUIVALENTS, Ending	$ 25,577	$ 51,635
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,070	$ 3,034
Income taxes	$ 86	$ 38
SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers to other real estate owned	$ 0	$ 172
Grant of restricted stock awards from treasury stock	$ 849	$ 821

See Notes to Consolidated Financial Statements

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CNB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

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

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

2. BUSINESS COMBINATION

On December 30, 2015, the Corporation announced the signing of a definitive merger agreement to acquire Lake National Bank of Mentor, Ohio for $22.50 per share in cash, or approximately $24.75 million in the aggregate. The transaction is expected to close in the third quarter of 2016, subject to customary closing conditions, including regulatory approvals and the approval of Lake National Bank shareholders. Following completion of the merger, Lake National Bank will operate as part of the ERIEBANK division of CNB Bank.

3. STOCK COMPENSATION

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

At March 31, 2016, there was no unrecognized compensation cost related to nonvested stock options granted under this plan and no stock options were granted during the three month periods ended March 31, 2016 and 2015.

Compensation expense for the restricted stock awards is recognized over the requisite service period noted above based on the fair value of the shares at the date of grant. Nonvested restricted stock awards are recorded as a reduction of additional paid-in-capital in shareholders equity until earned. Compensation expense resulting from these restricted stock awards was $240 and $157 for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, there was $1,600 of total unrecognized compensation cost related to unvested restricted stock awards.

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A summary of changes in nonvested restricted stock awards for the three months ended March 31, 2016 follows:

	Shares	Per Share Weighted Average Grant Date Fair Value
Nonvested at beginning of period	84,600	$ 17.01
Granted	50,000	17.63
Vested	(32,872)	16.92
Nonvested at end of period	101,728	$ 17.34

4. FAIR VALUE

Fair Value Measurement

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

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

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

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

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

The Corporation s structured pooled trust preferred securities are priced using Level 3 inputs. The decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely, and the once-active market has become comparatively inactive. The Corporation engaged a third party consultant who has developed a model for pricing these securities. Information such as historical and current performance of the underlying collateral, deferral and default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions and insurance companies are utilized in determining the security valuation. Due to the current market conditions as well as the limited trading activity of these types of securities, the market value of the Corporation s structured pooled trust preferred securities are highly sensitive to assumption changes and market volatility.

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

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

		Fair Value Measurements at March 31, 2016 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$ 141,502	$ 0	$ 141,502	$ 0
States and political subdivisions	171,041	0	171,041	0
Residential and multi-family mortgage	153,527	0	153,527	0
Corporate notes and bonds	18,101	0	18,101	0
Pooled trust preferred	3,109	0	0	3,109
Pooled SBA	50,448	0	50,448	0
Other equity securities	993	993	0	0
Total Securities Available For Sale	$ 538,721	$ 993	$ 534,619	$ 3,109
Interest rate swaps	$ 462	$ 0	$ 462	$ 0
Trading Securities:				
Corporate equity securities	$ 3,356	$ 3,356	$ 0	$ 0
Mutual funds	851	851	0	0
Certificates of deposit	255	255	0	0
Corporate notes and bonds	175	175	0	0
U.S. Government sponsored entities	55	0	55	0
Total Trading Securities	$ 4,692	$ 4,637	$ 55	$ 0
Liabilities,				
Interest rate swaps	$ (1,237)	$ 0	$ (1,237)	$ 0

		Fair Value Measurements at December 31, 2015 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$ 141,751	$ 0	$ 141,751	$ 0
States and political subdivisions	171,819	0	171,819	0
Residential and multi-family mortgage	157,982	0	157,982	0
Corporate notes and bonds	18,688	0	18,688	0
Pooled trust preferred	3,413	0	0	3,413
Pooled SBA	51,409	0	51,409	0
Other equity securities	981	981	0	0

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

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The table below presents a reconciliation of the fair value of securities available for sale measured on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2016 and March 31, 2015:

	2016	2015
Balance, January 1	$ 3,413	$ 905
Total gains or (losses):		
Included in other comprehensive income (unrealized)	(304)	0
Balance, March 31	$ 3,109	$ 905

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

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	$ 3,109	Discounted cash flow	Collateral default rate	0.5% in 2016 and thereafter
			Yield (weighted average)	9.0%
			Prepayment speed	2.0% constant prepayment rate in 2016 and thereafter

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

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

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

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

Fair Value Measurements at March 31, 2016 Using	
Quoted Prices in Active Markets for	Significant Unobservable

Description	Total	Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 2,247	0	0	$ 2,247

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

Impaired loans, measured for impairment using the fair value of collateral for collateral dependent loans, had a recorded investment of $3,406 with a valuation allowance of $1,159 as of March 31, 2016, resulting in a negative provision for loan losses of ($82) for the corresponding three month period. Impaired loans had a recorded investment of $3,489 with a valuation allowance of $1,242 as of December 31, 2015. Impaired loans earned at fair value resulted in an additional provision for loan losses of $3 for the three months ended March 31, 2015.

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

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2016:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	$ 2,247	Sales comparison approach	Adjustment for differences between the comparable sales	24% - 68% (34%)

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

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

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Fair Value of Financial Instruments

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

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 25,577	$ 25,577	$ 0	$ 0	$ 25,577
Securities available for sale	538,721	993	534,619	3,109	538,721
Trading securities	4,692	4,637	55	0	4,692
Loans held for sale	544	0	546	0	546
Net loans	1,589,570	0	0	1,598,865	1,598,865
FHLB and other equity interests	13,675	n/a	n/a	n/a	n/a
Interest rate swaps	462	0	462	0	462
Accrued interest receivable	7,609	6	3,170	4,433	7,609
LIABILITIES					
Deposits	$ (1,890,211)	$ (1,700,606)	$ (189,569)	$ 0	$ (1,890,175)
FHLB and other borrowings	(156,150)	0	(155,165)	0	(155,165)
Subordinated debentures	(20,620)	0	(11,802)	0	(11,802)
Interest rate swaps	(1,237)	0	(1,237)	0	(1,237)
Accrued interest payable	(820)	(334)	(467)	(19)	(820)

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

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$ 27,261	$ 27,261	$ 0	$ 0	$ 27,261
Securities available for sale	546,043	981	541,649	3,413	546,043
Trading securities	4,576	4,522	54	0	4,576
Loans held for sale	1,381	0	1,438	0	1,438
Net loans	1,561,061	0	0	1,554,502	1,554,502
FHLB and other equity interests	15,921	n/a	n/a	n/a	n/a
Interest rate swaps	131	0	131	0	131
Accrued interest receivable	7,312	5	2,875	4,432	7,312
LIABILITIES					
Deposits	$ (1,815,053)	$ (1,630,888)	$ (183,028)	$ 0	$ (1,813,916)
FHLB and other borrowings	(220,515)	0	(218,808)	0	(218,808)
Subordinated debentures	(20,620)	0	(11,761)	0	(11,761)
Interest rate swaps	(867)	0	(867)	0	(867)
Accrued interest payable	(766)	(344)	(404)	(18)	(766)

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

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

Level 1.

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

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

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

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

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

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

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

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

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

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

5. SECURITIES

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

	March 31, 2016				December 31, 2015			
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
U.S. Gov t sponsored entities	$ 139,178	$ 2,372	$ (48)	$ 141,502	$ 141,300	$ 1,579	$ (1,128)	$ 141,751
State & political subdivisions	163,663	7,572	(194)	171,041	165,828	6,234	(243)	171,819
Residential & multi-family mortgage	153,587	1,463	(1,523)	153,527	160,316	1,060	(3,394)	157,982
Corporate notes & bonds	19,788	199	(1,886)	18,101	19,794	165	(1,271)	18,688
Pooled trust preferred	800	2,309	0	3,109	800	2,613	0	3,413
Pooled SBA	50,000	913	(465)	50,448	51,556	760	(907)	51,409
Other equity securities	1,020	0	(27)	993	1,020	0	(39)	981
Total	$ 528,036	$ 14,828	$ (4,143)	$ 538,721	$ 540,614	$ 12,411	$ (6,982)	$ 546,043

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

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

	March 31, 2016	December 31, 2015
Corporate equity securities	$ 3,356	$ 3,389
Mutual funds	851	750
Certificates of deposit	255	253
Corporate notes and bonds	175	130
U.S. Government sponsored entities	55	54
Total	$ 4,692	$ 4,576

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

March 31, 2016

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov t sponsored entities	$ 12,014	$ (21)	$ 10,385	$ (27)	$ 22,399	$ (48)
State & political subdivisions	1,871	(194)	0	0	1,871	(194)
Residential & multi-family mortgage	43,223	(488)	53,225	(1,035)	96,448	(1,523)
Corporate notes & bonds	0	0	7,525	(1,886)	7,525	(1,886)
Pooled SBA	1,379	(1)	26,940	(464)	28,319	(465)
Other equity securities	0	0	993	(27)	993	(27)
	$ 58,487	$ (704)	$ 99,068	$ (3,439)	$ 157,555	$ (4,143)

December 31, 2015

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

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

A roll-forward of the other-than-temporary impairment amount related to credit losses for the three months ended March 31, 2016 and 2015 is as follows:

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

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

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

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

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

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

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

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

	Proceeds	Gross Gains	Gross Losses
Three months ended March 31, 2016	$ 0	$ 0	$ 0
Three months ended March 31, 2015	$ 32,949	$ 136	$ 117

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at March 31, 2016:

	Amortized Cost	Fair Value
1 year or less	$ 30,700	$ 30,547
1 year 5 years	192,864	199,213
5 years 10 years	76,842	79,312
After 10 years	23,023	24,681
	323,429	333,753
Residential and multi-family mortgage	153,587	153,527
Pooled SBA	50,000	50,448
Total debt securities	$ 527,016	$ 537,728

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

On March 31, 2016 and December 31, 2015, securities carried at $315,987 and $312,669, respectively, were pledged to secure public deposits and for other purposes as provided by law.

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6. LOANS

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

	March 31, 2016	December 31, 2015
Commercial, industrial, and agricultural	$ 477,835	$ 475,364
Commercial mortgages	471,844	448,179
Residential real estate	578,028	574,225
Consumer	75,858	78,345
Credit cards	5,167	5,201
Overdrafts	1,454	1,040
Less: unearned discount	(3,878)	(4,556)
allowance for loan losses	(16,738)	(16,737)
Loans, net	$ 1,589,570	$ 1,561,061

At March 31, 2016 and December 31, 2015, net unamortized loan fees of $(686) and $(636), respectively, have been included in the carrying value of loans.

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

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

Commercial, industrial, and agricultural loans comprised 30% and 30% of the Corporation s total loan portfolio at March 31, 2016 and December 31, 2015, respectively. Commercial mortgage loans comprised 29% and 28% of the Corporation s total loan portfolio at March 31, 2016 and December 31, 2015, respectively. Management assigns a risk rating to all commercial loans at loan origination. The loan-to-value policy guidelines for commercial, industrial, and agricultural loans are generally a maximum of 80% of the value of business equipment, a maximum of 75% of the value of accounts receivable, and a maximum of 60% of the value of business inventory. The loan-to-value policy guideline for commercial mortgage loans is generally a maximum of 85% of the appraised value of the real estate.

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

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

Transactions in the allowance for loan losses for the three months ended March 31, 2016 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2016	$ 6,035	$ 5,605	$ 2,475	$ 2,371	$ 90	$ 161	$ 16,737
Charge-offs	(271)	0	(25)	(987)	(9)	(51)	(1,343)
Recoveries	8	5	59	44	12	20	148
Provision (benefit) for loan losses	(145)	434	65	846	(12)	8	1,196
Allowance for loan losses, March 31, 2016	$ 5,627	$ 6,044	$ 2,574	$ 2,274	$ 81	$ 138	$ 16,738

Transactions in the allowance for loan losses for the three months ended March 31, 2015 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2015	$ 7,114	$ 5,310	$ 2,479	$ 2,205	$ 71	$ 194	$ 17,373
Charge-offs	(74)	0	(66)	(523)	(42)	(57)	(762)
Recoveries	15	50	1	29	3	30	128
Provision (benefit) for loan losses	168	(64)	372	418	42	7	943
Allowance for loan losses, March 31, 2015	$ 7,223	$ 5,296	$ 2,786	$ 2,129	$ 74	$ 174	$ 17,682

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

March 31, 2016

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 208	$ 107	$ 0	$ 0	$ 0	$ 0	$ 315
Collectively evaluated for impairment	4,634	4,003	2,574	2,274	81	138	13,704
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	785	1,934	0	0	0	0	2,719
Total ending allowance balance	$ 5,627	$ 6,044	$ 2,574	$ 2,274	$ 81	$ 138	$ 16,738
Loans:							
Individually evaluated for impairment	$ 1,032	$ 230	$ 0	$ 0	$ 0	$ 0	$ 1,262
Collectively evaluated for impairment	471,932	461,205	578,028	75,858	5,167	1,454	1,593,644

Acquired with deteriorated credit quality	0	676	0	0	0	0	676
Modified in a troubled debt restructuring	4,871	9,733	0	0	0	0	14,604
Total ending loans balance	$ 477,835	$ 471,844	$ 578,028	$ 75,858	$ 5,167	$ 1,454	$ 1,610,186

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December 31, 2015

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 239	$ 0	$ 39	$ 0	$ 0	$ 0	$ 278
Collectively evaluated for impairment	4,909	3,580	2,436	2,371	90	161	13,547
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	887	2,025	0	0	0	0	2,912
Total ending allowance balance	$ 6,035	$ 5,605	$ 2,475	$ 2,371	$ 90	$ 161	$ 16,737
Loans:							
Individually evaluated for impairment	$ 1,196	$ 393	$ 248	$ 0	$ 0	$ 0	$ 1,837
Collectively evaluated for impairment	469,128	437,200	573,977	78,345	5,201	1,040	1,564,891
Acquired with deteriorated credit quality	0	685	0	0	0	0	685
Modified in a troubled debt restructuring	5,040	9,901	0	0	0	0	14,941
Total ending loans balance	$ 475,364	$ 448,179	$ 574,225	$ 78,345	$ 5,201	$ 1,040	$ 1,582,354

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

March 31, 2016

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,416	$ 3,309	$ 993
Commercial mortgage	6,426	5,473	2,041
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	3,527	2,594	0
Commercial mortgage	4,490	4,490	0
Residential real estate	0	0	0
Total	$ 17,859	$ 15,866	$ 3,034

December 31, 2015

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,448	$ 3,448	$ 1,126
Commercial mortgage	5,985	5,343	2,025
Residential real estate	351	248	39

With no related allowance recorded:			
Commercial, industrial, and agricultural	3,716	2,788	0
Commercial mortgage	5,001	4,951	0
Residential real estate	0	0	0
Total	$ 18,501	$ 16,778	$ 3,190

	Three Months Ended March 31, 2016		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,379	$ 0	$ 0
Commercial mortgage	5,408	0	0
Residential real estate	124	5	5
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,691	0	0
Commercial mortgage	4,720	0	0
Residential real estate	0	1	1
Total	$ 16,322	$ 6	$ 6

	Three Months Ended March 31, 2015		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 5,981	$ 35	$ 35
Commercial mortgage	10,241	0	0
Residential real estate	400	2	2
With no related allowance recorded:			
Commercial, industrial, and agricultural	1,636	10	10
Commercial mortgage	4,886	0	0
Residential real estate	257	2	2
Total	$ 23,401	$ 49	$ 49

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

	March 31, 2016		December 31, 2015	
	Nonaccrual	Past Due Over 90 Days Still on Accrual	Nonaccrual	Past Due Over 90 Days Still on Accrual
Commercial, industrial, and agricultural	$ 3,571	$ 0	$ 3,560	$ 3
Commercial mortgages	3,740	0	3,651	0
Residential real estate	3,939	26	3,671	87
Consumer	1,047	26	1,277	15
Credit cards	0	0	0	0
Total	$ 12,297	$ 52	$ 12,159	$ 105

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

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

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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.

March 31, 2016

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 855	$ 1,148	$ 3,339	$ 5,342	$ 472,493	$ 477,835
Commercial mortgages	0	0	3,510	3,510	468,334	471,844
Residential real estate	2,007	0	3,713	5,720	572,308	578,028
Consumer	235	180	1,073	1,488	74,370	75,858
Credit cards	0	0	0	0	5,167	5,167
Overdrafts	0	0	0	0	1,454	1,454
Total	$ 3,097	$ 1,328	$ 11,635	$ 16,060	$ 1,594,126	$ 1,610,186

December 31, 2015

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

Troubled Debt Restructurings

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

The following table presents the number of loans, loan balances, and specific reserves for loans that have been restructured in a troubled debt restructuring as of March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
	Number of Loans	Loan Balance	Specific Reserve	Number of Loans	Loan Balance	Specific Reserve
Commercial, industrial, and agricultural	8	$ 4,871	$ 785	8	$ 5,040	$ 887
Commercial mortgages	8	9,733	1,934	8	9,901	2,025
Residential real estate	0	0	0	0	0	0
Consumer	0	0	0	0	0	0
Credit cards	0	0	0	0	0	0

Total	16	$ 14,604	$ 2,719	16	$ 14,941	$ 2,912

There were no loans modified as troubled debt restructurings during the three months ended March 31, 2016 or March 31, 2015.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. All loans modified in troubled debt restructurings are performing in accordance with their modified terms as of March 31, 2016 and December 31, 2015 and no principal balances were forgiven in connection with the loan restructurings.

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

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

Credit Quality Indicators

The Corporation classifies commercial, industrial, and agricultural loans and commercial mortgage loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans with outstanding balances greater than $1 million are analyzed at least semiannually and loans with outstanding balances of less than $1 million are analyzed at least annually.

The Corporation uses the following definitions for risk ratings:

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

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

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

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

March 31, 2016

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 448,196	$ 8,113	$ 21,274	$ 252	$ 477,835
Commercial mortgages	450,873	1,732	18,816	423	471,844
Total	$ 899,069	$ 9,845	$ 40,090	$ 675	$ 949,679

December 31, 2015

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$ 447,449	$ 4,749	$ 22,943	$ 223	$ 475,364
Commercial mortgages	426,870	1,735	19,148	426	448,179
Total	$ 874,319	$ 6,484	$ 42,091	$ 649	$ 923,543

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate, consumer, and credit card loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential, consumer, and credit card loans based on payment activity as of March 31, 2016 and December 31, 2015:

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	March 31, 2016			December 31, 2015		
	Residential Real Estate	Consumer	Credit Cards	Residential Real Estate	Consumer	Credit Cards
Performing	$ 574,063	$ 74,785	$ 5,167	$ 570,467	$ 77,053	$ 5,201
Non-performing	3,965	1,073	0	3,758	1,292	0
Total	$ 578,028	$ 75,858	$ 5,167	$ 574,225	$ 78,345	$ 5,201

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

Holiday s loan portfolio is summarized as follows at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Consumer	$ 26,617	$ 30,001
Residential real estate	1,301	1,263
Less: unearned discount	(3,878)	(4,556)
Total	$ 24,040	$ 26,708

7. DEPOSITS

Total deposits at March 31, 2016 and December 31, 2015 are summarized as follows (in thousands):

	Percentage Change	March 31, 2016	December 31, 2015
Checking, non-interest bearing	(0.4%)	$ 262,480	$ 263,639
Checking, interest bearing	8.2%	476,440	440,174
Savings accounts	3.7%	961,686	927,074
Certificates of deposit	3.0%	189,605	184,166
	4.1%	$ 1,890,211	$ 1,815,053

8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per share is computed using the weighted average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation plans. For the three months ended March 31, 2016 and 2015, there were no outstanding stock options to include in the diluted earnings per share calculations.

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

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Basic earnings per common share computation:		
Net income per consolidated statements of income	$ 5,019	$ 5,565
Net earnings allocated to participating securities	(31)	(29)
Net earnings allocated to common stock	$ 4,988	$ 5,536
Distributed earnings allocated to common stock	$ 2,369	$ 2,370
Undistributed earnings allocated to common stock	2,619	3,166
Net earnings allocated to common stock	$ 4,988	$ 5,536
Weighted average common shares outstanding, including shares considered participating securities	14,436	14,424
Less: Average participating securities	(79)	(67)
Weighted average shares	14,357	14,357
Basic earnings per common share	$ 0.35	$ 0.39
Diluted earnings per common share computation:		
Net earnings allocated to common stock	$ 4,988	$ 5,536
Weighted average common shares outstanding for basic earnings per common share	14,357	14,357
Add: Dilutive effects of assumed exercises of stock options	0	0
Weighted average shares and dilutive potential common shares	14,357	14,357
Diluted earnings per common share	$ 0.35	$ 0.39

9. DERIVATIVE INSTRUMENTS

On May 3, 2011, the Corporation executed an interest rate swap agreement with a 5 year term and an effective date of September 15, 2013 in order to hedge cash flows associated with $10 million of a subordinated note that was issued by the Corporation during 2007 and elected cash flow hedge accounting for the agreement. The Corporation s objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments from September 15, 2013 to September 15, 2018 without exchange of the underlying notional amount. At March 31, 2016, the variable rate on the subordinated debt was 2.18% (LIBOR plus 155 basis points) and the Corporation was paying 5.57% (4.02% fixed rate plus 155 basis points).

As of March 31, 2016 and December 31, 2015, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Corporation does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

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The following tables provide information about the amounts and locations of activity related to the interest rate swaps designated as cash flow hedges within the Corporation s consolidated balance sheet and statement of income as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and 2015:

	Balance Sheet Location	Fair value as of March 31, 2016	Fair value as of December 31, 2015
Interest rate contracts	Accrued interest and other liabilities	($775)	($ 736)

For the Three Months Ended March 31, 2016	(a)	(b)	(c)	(d)	(e)
Interest rate contracts	($ 25)	Interest expense subordinated debentures	($ 89)	Other income	$ 0
For the Three Months Ended March 31, 2015	(a)	(b)	(c)	(d)	(e)
Interest rate contracts	($ 19)	Interest expense subordinated debentures	($ 96)	Other income	$ 0

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

Amounts reported in accumulated other comprehensive loss related to the interest rate swap will be reclassified to interest expense as interest payments are made on the subordinated debentures. Such amounts reclassified from accumulated other comprehensive loss to interest expense in the next twelve months are expected to be $339. As of March 31, 2016 and December 31, 2015, a cash collateral balance in the amount of $1,400 was maintained with a counterparty to the interest rate swaps. These balances are included in interest bearing deposits with other banks on the consolidated balance sheet.

The Corporation has entered into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which the Corporation enters into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each swap transaction, the Corporation agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. Concurrently, the Corporation agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the Corporation s customers to effectively convert a variable rate loan to a fixed rate. Because the Corporation acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts offset each other and do not impact the Corporation s results of operations.

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The Corporation pledged cash collateral to another financial institution with a balance of $200 as of March 31, 2016. This balance is included in interest bearing deposits with other banks on the consolidated balance sheets. The Corporation does not require its customers to post cash or securities as collateral on its program of back-to-back swaps. However, certain language is included in the International Swaps and Derivatives Association agreement and loan documents where, in default situations, the Corporation is permitted to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Corporation may be required to post additional collateral to swap counterparties in the future in proportion to potential increases in unrealized loss positions.

The following table provides summary information about the amounts and locations of activity related to the back-to-back interest rate swaps within the Corporation s consolidated balance sheet as of March 31, 2016 and December 31, 2015:

	Notional Amount	Average Maturity (in years)	Weighted Average Fixed Rate	Weighted Average Variable Rate	Fair Value
March 31, 2016					
3rd Party interest rate swaps	$ 9,443	9.6	4.31%	1 month LIBOR +2.25%	$ 462(f)
Customer interest rate swaps	(9,443)	9.6	4.31%	1 month LIBOR +2.25%	(462)(g)
December 31, 2015					
3rd Party interest rate swaps	$ 6,751	9.4	4.42%	1 month LIBOR +2.25%	$ 131(f)
Customer interest rate swaps	(6,751)	9.4	4.42%	1 month LIBOR +2.25%	(131)(g)

(f) Reported in accrued interest receivable and other assets within the consolidated balance sheets
(g) Reported in accrued interest payable and other liabilities within the consolidated balance sheets

10. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2016, the FASB issued an update (ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting) which will require recognition of the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e., Additional Paid-in-Capital pools will be eliminated). The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of ASU 2016-09 is not expected to have a material effect on the Corporation s financial statements.

In March 2016, the FASB issued an update (ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments) which clarifies that an assessment of whether an embedded contingent put or call option is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence in ASC 815-15-25-42. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of ASU 2016-06 is not expected to have a material effect on the Corporation s financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) . ASU 2016-02 requires a lessee to recognize lease assets and lease liabilities that arise from all leases. In addition, lessor accounting guidance will be changed to conform to the new guidance. The update will be effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of the adoption of ASU 2016-02 on the Corporation s financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities . ASU 2016-01 provides updated accounting and reporting requirements for both public and non-public entities. The most significant provisions that will impact the Corporation are: 1) equity securities available for sale will be measured at fair value, with the changes in fair value recognized in the income statement; 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments at amortized cost on the balance sheet; 3) utilization of exit price notion when measuring the fair value of financial instruments for disclosure purposes; 4) require separate presentation of both financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The update will be effective for interim and annual reporting periods beginning after December 15, 2017, using a cumulative-effect adjustment to the balance sheet as of the beginning of the year adoption. Early adoption is not permitted. The adoption of ASU 2016-01 is not expected to have a material effect on the Corporation s financial statements.

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In May 2014, FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. Management is currently evaluating the impact of the adoption of this guidance on the Corporation s financial statements.

ITEM 2

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial statements of the Corporation is presented to provide insight into management s assessment of financial results. The Corporation s subsidiary, CNB Bank (the Bank), provides financial services to individuals and businesses primarily within its primary market area of the Pennsylvania counties of Blair, Cambria, Cameron, Centre, Clearfield, Crawford, Elk, Indiana, Jefferson, and McKean. As ERIEBANK, a division of CNB Bank, the Bank operates in the Pennsylvania counties of Crawford, Erie, and Warren, and the Ohio county of Ashtabula. As FCBank, a division of CNB Bank, the Bank operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Holmes, Delaware, Franklin, and Fairfield.

The Bank is subject to regulation, supervision and examination by the Pennsylvania State Department of Banking as well as the Federal Deposit Insurance Corporation. The financial condition and results of operations of the Corporation and its consolidated subsidiaries are not necessarily indicative of future performance. CNB Securities Corporation is incorporated in Delaware and currently maintains investments in debt and equity securities. CNB Insurance Agency, incorporated in Pennsylvania, provides for the sale of nonproprietary annuities and other insurance products. Holiday Financial Services Corporation (Holiday), incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics.

When we use the terms we , us and our , we mean CNB Financial Corporation and its subsidiaries. Management s discussion and analysis should be read in conjunction with the Corporation s consolidated financial statements and related notes.

The following discussion should be read in conjunction with the Corporation s Consolidated Financial Statements and Notes thereto, for the year ended December 31, 2015, included in its 2015 Form 10-K, and in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 1 of this report. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results for the full year ending December 31, 2016, or any future period.

GENERAL OVERVIEW

Management uses return on average equity, earnings per share, asset quality, and other metrics to measure the performance of the Corporation. The interest rate environment will continue to play an important role in the future earnings of the Corporation. During the past several years, in order to address the historically low interest rates that are primarily tied to short-term rates, such as the Prime Rate, the Corporation has taken a variety of measures including instituting rate floors on our commercial lines of credit and home equity lines.

Non-interest costs are expected to increase with the growth of the Corporation; however, management s growth strategies are expected to also result in an increase in earning assets as well as enhanced non-interest income which is expected to more than offset increases in non-interest expenses in 2016 and beyond. While past results are not an indication of future earnings, management believes the Corporation is well-positioned to sustain core earnings during 2016.

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CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled $25.6 million at March 31, 2016 compared to $27.3 million at December 31, 2015. Cash and cash equivalents fluctuate based on the timing and amount of liquidity events that occur in the normal course of business.

Management believes the liquidity needs of the Corporation are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, Federal Home Loan Bank financing, and the portions of the securities and loan portfolios that mature within one year. The Corporation expects that these sources of funds will enable it to meet cash obligations and off-balance sheet commitments as they come due.

SECURITIES

Securities available for sale and trading securities decreased by $7.2 million or 1.3% since December 31, 2015, and associated cash proceeds were used primarily to pay down short-term borrowings. The footnotes to the consolidated financial statements provide more detail concerning the composition of the Corporation s securities portfolio, the process for evaluating securities for other-than-temporary impairment, and for valuation of structured pooled trust preferred securities.

The Corporation generally buys into the market over time and does not attempt to time its transactions. In doing this, the highs and lows of the market are averaged into the portfolio and the overall effect of different rate environments is minimized. The Corporation monitors the earnings performance and the effectiveness of the liquidity of the securities portfolio on a regular basis through meetings of the Asset/Liability Committee of the Corporation s Board of Directors (ALCO). The ALCO also reviews and manages interest rate risk for the Corporation. Through active balance sheet management and analysis of the securities portfolio, a sufficient level of liquidity is maintained to satisfy depositor requirements and various credit needs of our customers.

LOANS

The Corporation experienced an increase in loans, net of unearned discount, of $28.5 million, or 1.8%, during the first three months of 2016. Lending efforts consist principally of commercial and retail lending, which includes single family residential mortgages and other consumer loans. The Corporation views commercial lending as its competitive advantage and continues to focus on this area by hiring and retaining experienced loan officers and supporting them with quality credit analysis. The Corporation expects loan demand to be solid and loan balances to grow throughout the remainder of 2016.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established by provisions for losses in the loan portfolio as well as overdrafts in deposit accounts. These provisions are charged against current income. Loans and overdrafts deemed not collectible are charged off against the allowance while any subsequent collections are recorded as recoveries and increase the allowance.

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The table below shows activity within the allowance account for the specified periods (in thousands):

	Three months ending March 31, 2016	Year ending December 31, 2015	Three months ending March 31, 2015
Balance at beginning of period	$ 16,737	$ 17,373	$ 17,373
Charge-offs:			
Commercial, industrial, and agricultural	(271)	(307)	(74)
Commercial mortgages		(486)	
Residential real estate	(25)	(632)	(66)
Consumer	(987)	(1,956)	(523)
Credit cards	(9)	(116)	(42)
Overdrafts	(51)	(221)	(57)
	(1,343)	(3,718)	(762)
Recoveries:			
Commercial, industrial, and agricultural	8	267	15
Commercial mortgages	5	52	50
Residential real estate	59	8	1
Consumer	44	96	29
Credit cards	12	14	3
Overdraft deposit accounts	20	85	30
	148	522	128
Net charge-offs	(1,195)	(3,196)	(634)
Provision for loan losses	1,196	2,560	943
Balance at end of period	$ 16,738	$ 16,737	$ 17,682
Loans, net of unearned	$ 1,606,308	$ 1,577,798	$ 1,356,126
Allowance to net loans	1.04%	1.06%	1.30%
Net charge-offs to average loans (annualized)	0.30%	0.22%	0.19%
Nonperforming assets	$ 13,131	$ 12,918	$ 10,192
Nonperforming % of total assets	0.57%	0.57%	0.47%

The adequacy of the allowance for loan losses is subject to a formal analysis by the Credit Administration and Finance Departments of the Corporation. As part of the formal analysis, delinquencies and losses are monitored monthly. The loan portfolio is divided into several categories in order to better analyze the entire pool. First is a selection of classified loans that is given a specific reserve. The remaining loans are pooled, by category, into these segments:

Reviewed

Commercial, industrial, and agricultural

Commercial mortgages

Homogeneous

Residential real estate

Consumer

Credit cards

Overdrafts

The reviewed loan pools are further segregated into four categories: special mention, substandard, doubtful, and pass rated. Historical loss factors are calculated for each pool excluding overdrafts based on the previous eight quarters of experience. The homogeneous pools are evaluated by analyzing the historical loss factors from the most previous quarter end and the two most recent year ends.

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The historical loss factors for both the reviewed and homogeneous pools are adjusted based on the following six qualitative factors:

- levels of and trends in delinquencies, non-accrual loans, and classified loans;
- trends in volume and terms of loans;
- effects of any changes in lending policies and procedures;
- experience and ability of management;
- national and local economic trends and conditions; and
- concentrations of credit.

The methodology described above was created using the experience of the Corporation s Management team, guidance from the regulatory agencies, expertise of a third-party loan review provider, and discussions with peers. The resulting factors are applied to the pool balances in order to estimate the probable risk of loss within each pool. Prudent business practices dictate that the level of the allowance, as well as corresponding charges to the provision for loan losses, should be commensurate with identified areas of risk within the loan portfolio and the attendant risks inherent therein. The quality of the credit risk management function and the overall administration of this vital segment of the Corporation s assets are critical to the ongoing success of the Corporation.

The previously mentioned analysis considers numerous historical and other factors to analyze the adequacy of the allowance and current period charges against the provision for loan losses. Management uses the analysis to compare and plot the actual level of the allowance against the aggregate amount of loans adversely classified in order to compute the estimated probable losses associated with those loans. Management then determines the current adequacy of the allowance and evaluates trends that may be developing. The volume and composition of the Corporation s loan portfolio continue to reflect growth in commercial credits including commercial real estate loans.

As mentioned in the Loans section of this analysis, management considers commercial lending to be a competitive advantage and continues to focus on this area as part of its strategic growth initiatives. However, management recognizes and considers the fact that risk is more pronounced in these types of credits and is, to a greater degree than with other loans, driven by the economic environment in which the debtor s business operates.

During the three months ended March 31, 2016, CNB recorded a provision for loan losses of $1.2 million, as compared to a provision for loan losses of $943 thousand for the three months ended March 31, 2015. Non-accrual loans as of March 31, 2016 were $12,297 compared to $9,158 as of March 31, 2015. Net chargeoffs in the first quarter of 2016 were $1.2 million, compared to net chargeoffs of $634 thousand in the first quarter of 2015. The increase in chargeoffs was primarily attributable to consumer loans held in CNB s consumer discount company, Holiday Financial Services Corporation. There were no new impaired commercial loan relationships that required a significant loss reserve in the first quarter of 2016.

Management believes that the allowance for loan losses is reasonable and adequate to absorb probable incurred losses in the Corporation s portfolio at March 31, 2016.

FUNDING SOURCES

The Corporation considers deposits, short-term borrowings, and term debt when evaluating funding sources. Deposits increased $75.2 million from $1.815 billion at December 31, 2015 to $1.890 billion at March 31, 2016.

Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank (FHLB) and other lenders to meet funding needs. Management plans to maintain access to short-term and long-term borrowings as an available funding source.

SHAREHOLDERS EQUITY AND CAPITAL RATIOS AND METRICS

The Corporation s capital continued to provide a base for profitable growth through March 31, 2016. Total shareholders equity was $208.2 million at March 31, 2016 and $201.9 million at December 31, 2015. In the first three months of 2016, the Corporation earned $5.0 million and declared dividends of $2.4 million, resulting in a dividend payout ratio of 47.1% of net income.

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The Corporation is required to comply with standards of capital adequacy mandated by banking regulators. On January 1, 2015, rules to implement Basel III capital requirements became effective for community banks. The rules substantially revised the risk-based capital requirements in comparison to the previously existing U.S. risk-based capital rules. The Basel III Capital Rules, among other things, (i) introduced a new capital measure called Common Equity Tier 1 (CET1), (ii) increased the minimum requirements for Tier 1 Capital ratio as well as the minimum levels to be considered well capitalized under prompt corrective action; (iii) and introduced the capital conservation buffer , designed to absorb losses during periods of economic stress. Institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer are subject to constraints on dividends, equity repurchases and discretionary bonuses to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Corporation s capital ratios, book value per share and tangible book value per share as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
Total risk-based capital ratio	12.98%	13.18%
Tier 1 capital ratio	11.97%	12.14%
Tier 1 common equity ratio	10.76%	10.90%
Leverage ratio	8.73%	8.73%
Tangible common equity/tangible assets (1)	7.87%	7.64%
Book value per share	$ 14.40	$ 14.01
Tangible book value per share (1)	$ 12.37	$ 11.96

(1) Tangible common equity, tangible assets and tangible book value per share are non-GAAP financial measures calculated using GAAP amounts. Tangible common equity is calculated by excluding the balance of goodwill and core deposit intangibles from the calculation of shareholders equity. Tangible assets is calculated by excluding the balance of goodwill and core deposit intangibles from the calculation of total assets. Tangible book value per share is calculated by dividing tangible common equity by the number of shares outstanding. The Corporation believes that these non-GAAP financial measures provide information to investors that is useful in understanding its financial condition because they are additional measures used to assess capital adequacy. Because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. A reconciliation of these non-GAAP financial measures is provided below (dollars in thousands, except share and per share data).

	March 31, 2016	December 31, 2015
Shareholders equity	$ 208,156	$ 201,913
Less goodwill	27,194	27,194
Less core deposit intangible	2,180	2,395
Tangible common equity	$ 178,782	$ 172,324
Total assets	$ 2,301,001	$ 2,285,136
Less goodwill	27,194	27,194
Less core deposit intangible	2,180	2,395
Tangible assets	$ 2,271,627	$ 2,255,547
Ending shares outstanding	14,457,955	14,408,430
Tangible book value per share	$ 12.37	$ 11.96
Tangible common equity/tangible assets	7.87%	7.64%

LIQUIDITY

Liquidity measures an organization s ability to meet cash obligations as they come due. The consolidated statement of cash flows provides analysis of the Corporation s cash and cash equivalents. Additionally, management considers that portion of the loan and investment portfolio that matures within one year to be part of the Corporation s liquid assets. The Corporation s liquidity is monitored by both management and the ALCO, which establishes and monitors ranges of acceptable liquidity. Management believes the Corporation s current liquidity position is acceptable.

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OFF BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off balance sheet risk was as follows at March 31, 2016 and December 31, 2015 (in thousands):

	March 31, 2016		December 31, 2015	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 47,232	$ 289,224	$ 42,803	$ 259,032
Unused lines of credit	0	92,116	0	87,493
Standby letters of credit	0	14,604	0	15,704

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments at March 31, 2016 have interest rates ranging from 1.19% to 18.00% and maturities ranging from 3 months to 20 years. The fixed rate loan commitments at December 31, 2015 have interest rates ranging from 1.19% to 18.00% and maturities ranging from 3 months to 20 years.

In October 2015, the Corporation entered into a subscription agreement with Oxer BCP Mezzanine Fund, LP (Oxer) and committed to invest $5,000 as a limited partner in the fund. Oxer is a Small Business Investment Company (SBIC) that is licensed and regulated by the Office of Investment at the Small Business Administration (SBA). The SBIC license allows SBICs to employ private capital and funds borrowed at a low cost using SBA-guaranteed securities to make investments in qualifying small businesses and similar enterprises as defined by SBA regulations. As of March 31, 2016, the Corporation has invested $361 of its $5,000 commitment.

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CONSOLIDATED YIELD COMPARISONS

AVERAGE BALANCES AND NET INTEREST MARGIN FOR THE THREE MONTHS ENDED

Dollars in thousands

	March 31, 2016			March 31, 2015		
	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.
ASSETS:						
Securities:						
Taxable (1)	$ 416,268	2.30%	$ 2,355	$ 524,653	2.26%	$ 2,939
Tax-Exempt (1,2)	128,967	4.25%	1,328	135,695	4.30%	1,414
Equity Securities (1,2)	17,886	4.29%	192	9,286	15.64%	363
Total securities	563,121	2.81%	3,875	669,634	2.85%	4,716
Loans:						
Commercial (2)	476,128	4.70%	5,599	439,895	4.77%	5,250
Mortgage (2)	1,047,439	4.32%	11,309	852,783	4.97%	10,597
Consumer	72,215	11.17%	2,016	70,001	10.44%	1,827
Total loans (3)	1,595,782	4.74%	18,924	1,362,679	5.19%	17,674
Total earning assets	2,158,903	4.25%	$ 22,799	2,032,313	4.42%	$ 22,390
Non interest-bearing assets:						
Cash and due from banks	25,758			31,230		
Premises and equipment	39,912			35,938		
Other assets	92,077			92,738		
Allowance for loan losses	(16,790)			(17,681)		
Total non interest-bearing assets	140,957			142,225		
TOTAL ASSETS	$ 2,299,860			$ 2,174,538		
LIABILITIES AND SHAREHOLDERS EQUITY:						
Demand interest-bearing	$ 460,452	0.35%	$ 408	$ 442,468	0.35%	$ 386
Savings	955,857	0.46%	1,092	961,222	0.49%	1,177
Time	183,688	1.12%	516	192,326	1.01%	484
Total interest-bearing deposits	1,599,997	0.50%	2,016	1,596,016	0.51%	2,047
Short-term borrowings	88,620	0.61%	136	19,807	0.53%	26
Long-term borrowings	100,912	3.08%	778	75,668	4.19%	792
Subordinated debentures	20,620	3.76%	194	20,620	3.61%	186
Total interest-bearing liabilities	1,810,149	0.69%	$ 3,124	1,712,111	0.71%	$ 3,051
Demand non interest-bearing	255,336			248,163		
Other liabilities	26,277			20,205		

Total liabilities	2,091,762	1,980,479
Shareholders equity	208,098	