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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _________ to _________

Commission File Number 000-13396

CNB FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1450605**
(State or other jurisdiction of 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. Yes No

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

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

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

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

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

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

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

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PART I.

FINANCIAL INFORMATION

PART II.

OTHER INFORMATION

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Forward-Looking Statements

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

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

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Part I Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

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

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

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

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

Advertising	619	395
FDIC insurance premiums	370	340
Prepayment penalties long-term borrowings	0	1,506
Core processing conversion costs	0	1,488
Merger costs	0	173
Card processing and interchange expenses	614	448
Other	2,405	2,353
Total non-interest expenses	17,797	18,752
INCOME BEFORE INCOME TAXES	9,147	5,249
INCOME TAX EXPENSE (includes $28 and $322 income tax expense from reclassification items in 2017 and 2016, respectively)	2,464	1,184
NET INCOME	$ 6,683	$ 4,065
EARNINGS PER SHARE:		
Basic	$ 0.44	$ 0.28
Diluted	$ 0.44	$ 0.28
DIVIDENDS PER SHARE:		
Cash dividends per share	$ 0.165	$ 0.165

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

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

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

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Dollars in thousands

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

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

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

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

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CNB FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

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

In the opinion of management of the registrant, the accompanying consolidated financial statements as of June 30, 2017 and for the three and six month periods ended June 30, 2017 and 2016 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations for the periods presented. The financial performance reported for CNB Financial Corporation (the Corporation) for the three and six month periods ended June 30, 2017 is not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Corporation s Annual Report on Form 10-K for the period ended December 31, 2016 (the 2016 Form 10-K). All dollar amounts are stated in thousands, except share and per share data and other amounts as indicated. Certain prior period amounts have been reclassified to conform to the current period presentation.

2. STOCK COMPENSATION

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

At June 30, 2017, there was no unrecognized compensation cost related to nonvested stock options granted under this plan and no stock options were granted during the three and six month periods ended June 30, 2017 and 2016.

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

Compensation expense for the restricted stock awards is recognized over the requisite service period noted above based on the fair value of the shares at the date of grant. Nonvested restricted stock awards are recorded as a reduction of additional paid-in-capital in shareholders equity until earned. Compensation expense resulting from these restricted stock awards was $207 and $396 for the three and six months ended June 30, 2017 and $172 and $412 for the three and six months ended June 30, 2016. As of June 30, 2017, there was $1,786 of total unrecognized compensation cost related to unvested restricted stock awards.

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

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

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

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

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

3. FAIR VALUE

Fair Value Measurement

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

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

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

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

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

The Corporation s structured pooled trust preferred securities are priced using Level 3 inputs. The decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted

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

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

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

Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2017 and December 31, 2016:

		Fair Value Measurements at June 30, 2017 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$ 128,476	$ 0	$ 128,476	$ 0
States and political subdivisions	149,051	0	149,051	0
Residential and multi-family mortgage	116,781	0	116,781	0
Corporate notes and bonds	18,220	0	18,220	0
Pooled SBA	39,565	0	39,565	0
Other equity securities	972	972	0	0
Total Securities Available For Sale	$ 453,065	$ 972	$ 452,093	$ 0
Interest Rate swaps	$ 235	$ 0	$ 235	$ 0
Trading Securities:				
Corporate equity securities	$ 3,987	$ 3,987	$ 0	$ 0
Mutual funds	1,244	1,244	0	0
Certificates of deposit	211	211	0	0
Corporate notes and bonds	256	256	0	0
U.S. Government sponsored entities	53	0	53	0
Total Trading Securities	$ 5,751	$ 5,698	$ 53	$ 0
Liabilities,				
Interest rate swaps	$ (548)	$ 0	$ (548)	$ 0

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		Fair Value Measurements at December 31, 2016 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$ 140,351	$ 0	$ 140,351	$ 0
States and political subdivisions	157,037	0	157,037	0
Residential and multi-family mortgage	134,976	0	134,976	0
Corporate notes and bonds	17,414	0	17,414	0
Pooled trust preferred	2,049	0	0	2,049
Pooled SBA	43,037	0	43,037	0
Other equity securities	971	971	0	0
Total Securities Available For Sale	$ 495,835	$ 971	$ 492,815	$ 2,049
Interest Rate swaps	$ 211	$ 0	$ 211	$ 0
Trading Securities:				
Corporate equity securities	$ 3,312	$ 3,312	$ 0	$ 0
Mutual funds	1,037	1,037	0	0
Certificates of deposit	202	202	0	0
Corporate notes and bonds	254	254	0	0
U.S. Government sponsored entities	53	0	53	0
Total Trading Securities	$ 4,858	$ 4,805	$ 53	$ 0
Liabilities,				
Interest rate swaps	$ (670)	$ 0	$ (670)	$ 0

The table below presents a reconciliation of the fair value of securities available for sale measured on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2017 and 2016:

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

The table below presents a reconciliation of the fair value of securities available for sale measured on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2017 and 2016:

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

Balance, June 30	$ 0	$ 1,702

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

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

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

Assets and liabilities measured at fair value on a non-recurring basis are as follows at June 30, 2017 and December 31, 2016:

		Fair Value Measurements at June 30, 2017 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 11	0	0	$ 11

		Fair Value Measurements at December 31, 2016 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 2,067	0	0	$ 2,067

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

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

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2017:

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

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

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

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

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

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

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

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

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

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

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

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

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

4. SECURITIES

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

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

At June 30, 2017 and December 31, 2016, there were no holdings of securities of any one issuer, other than the U.S. Government sponsored entities, in an amount greater than 10% of shareholders equity. The Corporation s residential and multi-family mortgage securities are issued by government sponsored entities.

Trading securities at June 30, 2017 and December 31, 2016 are as follows:

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

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

June 30, 2017

	Less than 12 Months		**12 Months or More**		**Total**	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov t sponsored entities	$ 59,087	$ (174)	$ 0	$ (0)	$ 59,087	$ (174)

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

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December 31, 2016

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov t sponsored entities	$ 90,380	$ (579)	$ 0	$ (0)	$ 90,380	$ (579)
State & political subdivisions	32,353	(448)	264	(201)	32,617	(649)
Residential and multi-family mortgage	65,598	(1,255)	34,611	(1,127)	100,209	(2,382)
Corporate notes & bonds	2,089	(11)	8,476	(951)	10,565	(962)
Pooled SBA	6,481	(126)	20,560	(792)	27,041	(918)
Other equity securities	0	(0)	971	(49)	971	(49)
	$ 196,901	$ (2,419)	$ 64,882	$ (3,120)	$ 261,783	$ (5,539)

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

A roll-forward of the other-than-temporary impairment amount related to credit losses for the three and six months ended June 30, 2017 and 2016 is as follows:

	2017	2016
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, beginning of period	$ 2,071	$ 4,054
Credit losses previously recognized on securities sold during the period	(2,071)	(1,983)
Additional credit loss for which other-than-temporary impairment was not previously recognized	0	0
Additional credit loss for which other-than-temporary impairment was previously recognized	0	0
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, end of period	$ 0	$ 2,071

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

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

As of June 30, 2017 and December 31, 2016, management concluded that the securities described in the previous paragraph were not other-than-temporarily impaired for the following reasons:

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

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

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

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

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

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

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

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

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

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

5. LOANS

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

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

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

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

Pursuant to the Corporation s lending policies, management considers a variety of factors when determining whether to extend credit to a customer, including loan-to-value ratios, FICO scores, quality of the borrower s financial statements, and the ability to obtain personal guarantees.

Commercial, industrial, and agricultural loans comprised 31% and 30% of the Corporation s total loan portfolio at June 30, 2017 and December 31, 2016, respectively. Commercial mortgage loans comprised 31% and 31% of the Corporation s total loan portfolio at June 30, 2017 and December 31, 2016, respectively. Management assigns a risk rating to all commercial loans at loan origination. The loan-to-value policy guidelines for commercial, industrial, and agricultural loans are generally a maximum of 80% of the value of business equipment, a maximum of 75% of the value of accounts receivable, and a maximum of 60% of the value of business inventory at loan origination. The loan-to-value policy guideline for commercial mortgage loans is generally a maximum of 85% of the appraised value of the real estate.

Residential real estate loans comprised 34% and 35% of the Corporation s total loan portfolio at June 30, 2017 and December 31, 2016, respectively. The loan-to-value policy guidelines for residential real estate loans vary depending on the collateral position and the specific type of loan. Higher loan-to-value terms may be approved with the appropriate private mortgage insurance coverage. The Corporation also originates and prices loans for sale into the secondary market. Loans so originated are classified as loans held for sale and are excluded from residential real estate loans reported above. The rationale for these sales is to mitigate interest rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio and to generate fee revenue from sales and servicing the loan. The Corporation also offers a variety of unsecured and secured consumer loan and credit card products which represent less than 10% of the total loan portfolio at both June 30, 2017 and December 31, 2016. Terms and collateral requirements vary depending on the size and nature of the loan.

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

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

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

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

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

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

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

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2016	$ 6,035	$ 5,605	$ 2,475	$ 2,371	$ 90	$ 161	$ 16,737
Charge-offs	(433)	(20)	(149)	(1,688)	(37)	(81)	(2,408)
Recoveries	47	5	62	74	15	40	243
Provision (benefit) for loan losses	(431)	617	(89)	1,309	(18)	28	1,416
Allowance for loan losses, June 30, 2016	$ 5,218	$ 6,207	$ 2,299	$ 2,066	$ 50	$ 148	$ 15,988

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and is based on the Corporation s impairment method as of June 30, 2017 and December 31, 2016. The recorded investment in loans excludes accrued interest and unearned discounts due to their insignificance.

June 30, 2017

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 0	$ 2,151	$ 0	$ 0	$ 0	$ 0	$ 2,151
Collectively evaluated for impairment	5,442	3,862	1,670	2,068	142	185	13,369
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	121	1,628	0	0	0	0	1,749
Total ending allowance balance	$ 5,563	$ 7,641	$ 1,670	$ 2,068	$ 142	$ 185	$ 17,269
Loans:							
Individually evaluated for impairment	$ 630	$ 6,094	$ 0	$ 0	$ 0	$ 0	$ 6,724
Collectively evaluated for impairment	633,655	602,031	684,294	76,476	6,080	2,359	2,004,895

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

December 31, 2016

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 188	$ 996	$ 0	$ 0	$ 0	$ 0	$ 1,184
Collectively evaluated for impairment	5,115	3,543	1,653	2,215	93	188	12,807
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	125	2,214	0	0	0	0	2,339
Total ending allowance balance	$ 5,428	$ 6,753	$ 1,653	$ 2,215	$ 93	$ 188	$ 16,330

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

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

June 30, 2017

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

December 31, 2016

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

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

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

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

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	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Commercial, industrial, and agricultural	$ 1,480	$ 36	$ 36	$ 3,249	$ 2	$ 2
Commercial mortgage	13,459	216	216	5,320	4	4
Residential real estate	0	0	0	83	6	6
With no related allowance recorded:						
Commercial, industrial, and agricultural	1,812	50	50	2,612	2	2
Commercial mortgage	1,631	67	67	4,622	3	3
Residential real estate	0	0	0	0	0	0
Total	$ 18,382	$ 369	$ 369	$ 15,886	$ 17	$ 17

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing interest by class of loans as of June 30, 2017 and December 31, 2016:

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

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

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

June 30, 2017

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

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December 31, 2016

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

Troubled Debt Restructurings

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

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

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

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

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

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

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

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Credit Quality Indicators

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

The Corporation uses the following definitions for risk ratings:

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

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

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

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

June 30, 2017

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

December 31, 2016

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

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

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

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

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

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

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

6. DEPOSITS

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

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

7. EARNINGS PER SHARE

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

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

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

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

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

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

8. DERIVATIVE INSTRUMENTS

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

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

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

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

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

	Interest expense subordinated debentures	Other income

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

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

(a) Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivative (Effective Portion), net of tax
(b) Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(c) Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(d) Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
(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 $289. As of June 30, 2017 and December 31, 2016, 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.

The Corporation pledged cash collateral to another financial institution with a balance $750 as of both June 30, 2017 and December 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.

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The following table provides 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 June 30, 2017 and December 31, 2016:

	Notional Amount	Weighted Average Maturity (in years)	Weighted Average Fixed Rate	Weighted Average Variable Rate	Fair Value
June 30, 2017					
3rd Party interest rate swaps	$ 14,647	8.5	4.43%	1 month LIBOR + 2.35%	$ 235(a)
Customer interest rate swaps	(14,647)	8.5	4.43%	1 month LIBOR + 2.35%	(235)(b)
December 31, 2016					
3rd Party interest rate swaps	$ 14,814	9.0	4.43%	1 month LIBOR + 2.35%	$ 211(a)
Customer interest rate swaps	(14,814)	9.0	4.43%	1 month LIBOR + 2.35%	(211)(b)

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

9. COMMON STOCK ISSUANCE

In February 2017, the Corporation completed an at-the-market common stock issuance. A total of 834,896 shares of the Corporation s common stock were sold at a weighted average price of approximately $23.96, representing gross proceeds to the Corporation of $20,000. Net proceeds from the transaction, after the sales commission and other expenses, were $19,300, which will be used for general corporate purposes, including loan growth, additional liquidity, and working capital.

10. BRANCH SALE

On May 19, 2017, CNB completed its previously announced sale of the Mt. Hope, Ohio branch to First Federal Community Bank. CNB transferred loans totaling $7,800, fixed assets totaling $100, and deposits totaling $7,400 in conjunction with the sale of the branch and realized a gain of $536 based on the 8% deposit premium paid by First Federal Community Bank.

11. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2017, the FASB issued an update (ASU 2017-09, Compensation Stock Compensation) to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, and the amendments in this update should be applied prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 is not expected to have a material effect on the Corporation s financial statements.

In January 2017, the FASB issued an update (ASU 2017-04, Intangibles Goodwill and Other) which is intended to simplify the measurement of goodwill in periods following the date on which the goodwill is initially recorded. Under the amendments in this update, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. A public business entity that is a U.S. Securities and Exchange Commission filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of ASU 2017-04 is not expected to have a material effect on the Corporation s financial statements.

In August 2016, the FASB issued an update (ASU 2016-15, Statement of Cash Flows) which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update apply to all entities, including business entities and not-for-profit entities that are required to present a statement of cash flows, and are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of ASU 2016-15 is not expected to have a material effect on the Corporation s financial statements.

In June 2016, the FASB issued an update (ASU 2016-13, Financial Instruments Credit Losses) which will require recognition of an entity s current estimate of all expected credit losses for assets measured at amortized cost. The amendments in ASU 2016-13 eliminate the probable initial recognition threshold in current U.S. Generally Accepted Accounting Principles. In addition, the amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually, such as loans. The update will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2018. Management is currently in the developmental stages of evaluating the impact of the adoption of ASU 2016-13 on the Corporation s financial statements and is collecting available historical information in order to assess the expected credit losses. Although management expects the allowance for loan losses will increase upon the adoption of ASU 2016-13, the impact to the financial statements is yet to be determined.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 requires 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 became effective in the first quarter of 2017 and did not 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 the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. 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 and anticipates an increase in the Corporation s assets and liabilities. However, the amounts that will be adjusted are still to be determined.

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.

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, along with disclosures related to the disaggregation of revenues and associated risks. 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 permitted. Management is currently reviewing contracts and agreements associated with the generation of non-interest income, and the adoption of ASU 2014-09 is not expected to have a material effect 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 counties of Ashtabula and Lake. As FCBank, a division of CNB Bank, the Bank operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Delaware, and Franklin. As Bank on Buffalo, a division of CNB Bank, the Bank operates in Erie County, New York.

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, 2016, included in its 2016 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 six months ended June 30, 2017 are not necessarily indicative of the results for the full year ending December 31, 2017, or any future period.

GENERAL OVERVIEW

Management concentrates on 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 historic lows on 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 2017 and beyond. While past results are not an indication of future earnings, management believes the Corporation is well-positioned to sustain core earnings during 2017.

On May 19, 2017, CNB completed its previously announced sale of the Mt. Hope, Ohio branch to First Federal Community Bank. CNB transferred loans totaling $7.8 million and deposits totaling $7.4 million in conjunction with the sale of the branch and realized a gain of $536 thousand based on the 8% deposit premium paid by First Federal Community Bank.

In June 2017, the Corporation closed two of its CNB Bank branch locations which were identified as having a small core deposit base and/or were in close proximity to other CNB Bank branch locations. Expenses associated with the closing of these branches were not significant, with the exception of $108 thousand of fair value write-downs related to premises and

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equipment recognized in the second quarter of 2017 and which are included as a reduction of other non-interest income in the accompanying consolidated statements of income. The employees from the closed branch locations were transferred to other nearby CNB Bank branches or other open positions within CNB Bank.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents totaled $33.0 million at June 30, 2017 compared to $29.2 million at December 31, 2016. 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 $41.9 million or 8.4% since December 31, 2016, and associated cash proceeds were used primarily to fund loan growth. 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 $147.3 million, or 7.9%, during the first six months of 2017. 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 2017.

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):

	Six months ending June 30, 2017	Year ending December 31, 2016	Six months ending June 30, 2016
Balance at beginning of period	$ 16,330	$ 16,737	$ 16,737
Charge-offs:			
Commercial, industrial, and agricultural	(30)	(601)	(433)
Commercial mortgages	0	(201)	(20)
Residential real estate	(198)	(499)	(149)
Consumer	(1,266)	(3,324)	(1,688)
Credit cards	(72)	(96)	(37)
Overdrafts	(129)	(240)	(81)
	(1,695)	(4,961)	(2,408)
Recoveries:			
Commercial, industrial, and agricultural	131	89	47
Commercial mortgages	194	8	5
Residential real estate	73	93	62
Consumer	14	122	74
Credit cards	15	22	15
Overdraft deposit accounts	57	71	40
	484	405	243
Net charge-offs	(1,211)	(4,556)	(2,165)
Provision for loan losses	2,150	4,149	1,416
Balance at end of period	$ 17,269	$ 16,330	$ 15,988
Loans, net of unearned	$ 2,020,829	$ 1,873,536	$ 1,655,844
Allowance to net loans	0.85%	0.87%	0.97%
Net charge-offs to average loans (annualized)	0.12%	0.27%	0.27%
Nonperforming assets	$ 21,198	$ 16,354	$ 12,676
Nonperforming % of total assets	0.79%	0.64%	0.54%

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 and six months ended June 30, 2017, the Corporation recorded a provision for loan losses of $1.1 million and $2.2 million, as compared to a provision for loan losses of $220 thousand and $1.4 million for the three and six months ended June 30, 2016. Net chargeoffs during the three and six months ended June 30, 2017 were $411 thousand and $1.2 million, compared to net chargeoffs of $970 thousand and $2.2 million for the three and six months ended June 30, 2016. CNB Bank net chargeoffs totaled $58 thousand and $655 thousand during the six months ended June 30, 2017 and 2016, or .01% and .08%, respectively, of average CNB Bank loans. Holiday Financial Services recorded net chargeoffs totaling $1.2 million and $1.5 million during the six months ended June, 2017 and 2016, respectively.

In the first quarter of 2017, one commercial real estate loan that was impaired at year end 2016 but still on accrual status was placed on nonaccrual status as a result of further deterioration in the financial condition of the borrower. The additional provision for loan losses recorded in 2017 related to this loan was $1.2 million, including $553 thousand in the first quarter and $603 thousand in the second quarter, which was based on the most current financial information from the borrower as of each period end.

Management believes that the allowance for loan losses is reasonable and adequate to absorb probable incurred losses in the Corporation s portfolio at June 30, 2017.

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FUNDING SOURCES

The Corporation considers deposits, short-term borrowings, and term debt when evaluating funding sources. Deposits increased $59.3 million from $2.018 billion at December 31, 2016 to $2.077 billion at June 30, 2017.

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.

In September 2016, the Corporation completed a private placement of $50 million in aggregate principal amount of fixed-to-floating rate subordinated notes. The notes will mature in October 2026, and will initially bear interest at a fixed rate of 5.75% per annum, payable semi-annually in arrears, to, but excluding, October 15, 2021, and thereafter to, but excluding, the maturity date or earlier redemption, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 455 basis points. These subordinated notes were designed to qualify as Tier 2 capital under the Federal Reserve s capital guidelines and were given an investment grade rating of BBB- by Kroll Bond Rating Agency. The Corporation injected the net proceeds from the subordinated notes into its bank subsidiary, CNB Bank, and intends to use the capital for general corporate purposes, including loan growth, additional liquidity, and working capital.

In June 2017, CNB converted short-term borrowings having a maturity of two months or less and interest rates ranging from 1.30% to 1.38% to longer term advances with the Federal Home Loan Bank of Pittsburgh. The aggregate amount of such borrowings was $140 million, with a weighted average maturity of 3.7 years and a weighted average interest rate of 1.87%. Although the effect will be to increase borrowing costs in the near term, management believes the execution of this strategy will result in a more effective duration match with CNB s loan portfolio and appropriately mitigate the interest rate risk associated with maintaining short-term borrowings in a rising interest rate environment.

SHAREHOLDERS EQUITY AND CAPITAL RATIOS AND METRICS

The Corporation s capital continued to provide a base for profitable growth through June 30, 2017. Total shareholders equity was $240.3 million at June 30, 2017 and $211.8 million at December 31, 2016. In the first six months of 2017, the Corporation earned $13.2 million and declared dividends of $5.0 million, resulting in a dividend payout ratio of 37.9% of net income.

On February 15, 2017, the Corporation announced that it successfully completed an at-the-market common stock issuance. A total of 834,896 shares of the Corporation s common stock were sold at a weighted average price of approximately $23.96, representing gross proceeds to the Corporation of approximately $20.0 million. Net proceeds from the transaction, after the sales commission and other expenses, were approximately $19.3 million, which will be used for general corporate purposes, including loan growth, additional liquidity, and working capital.

The Corporation has complied with the standards of capital adequacy mandated by government regulations. Bank regulators have established risk-based capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets banks hold in their portfolios. A weight category of 0% (lowest risk assets), 20%, 50%, 100%, or 150% (highest risk assets), is assigned to each asset on the balance sheet.

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The Corporation s capital ratios, book value per share and tangible book value per share as of June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Total risk-based capital ratio	14.71%	14.05%
Tier 1 capital ratio	11.29%	10.49%
Common equity tier 1 ratio	10.27%	9.41%
Leverage ratio	8.45%	7.85%
Tangible common equity/tangible assets (1)	7.56%	6.72%
Book value per share	$ 15.72	$ 14.64
Tangible book value per share (1)	$ 13.04	$ 11.76

(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).

	June 30, 2017	December 31, 2016
Shareholders equity	$ 240,292	$ 211,784
Less goodwill	38,730	38,730
Less core deposit intangible	2,192	2,854
Tangible common equity	$ 199,370	$ 170,200
Total assets	$ 2,678,909	$ 2,573,821
Less goodwill	38,730	38,730
Less core deposit intangible	2,192	2,854
Tangible assets	$ 2,637,987	$ 2,532,237
Ending shares outstanding	15,285,371	14,467,815
Tangible book value per share	$ 13.04	$ 11.76
Tangible common equity/tangible assets	7.56%	6.72%

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 June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017		December 31, 2016	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 60,403	$ 223,499	$ 57,283	$ 202,883
Unused lines of credit	0	113,036	0	105,779
Standby letters of credit	0	13,845	0	4,618

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments at June 30, 2017 have interest rates ranging from 1.00% to 18.00% and maturities ranging from 9 months to 15 years. The fixed rate loan commitments at December 31, 2016 have interest rates ranging from 1.19% to 18.00% and maturities ranging from 3 months to 15 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. In February 2017, the Corporation entered into a subscription agreement with Tecum Capital Partners II, LP (Tecum) and committed to invest $3,000 as a limited partner in the fund. Oxer and Tecum are Small Business Investment Companies (SBIC) that are 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 June 30, 2017, the Corporation has invested $3,048 of its total $8,000 commitment in Oxer and Tecum.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 and 2016

OVERVIEW OF THE INCOME STATEMENT

The Corporation had net income of $6.7 million in the second quarter of 2017 and $4.1 million in the second quarter of 2016. The earnings per diluted share were $0.44 in the second quarter of 2017 and $0.28 in the second quarter of 2016. The annualized return on assets and return on equity for the second quarter of 2017 are 1.01% and 11.17% compared to 0.70% and 7.72% for the second quarter of 2016.

Earnings in the second quarter of 2017 were impacted by a gain on the sale of a branch of $536 thousand and realized gains on the sale of available-for-sale securities of $155 thousand. Earnings in the second quarter of 2016 were impacted by a prepayment penalty on the early payoff of long-term borrowings of $1.5 million, core processing conversion costs of $1.5 million, merger costs of $173 thousand, and realized gains on the sale of available-for-sale securities of $1.0 million.

INTEREST INCOME AND EXPENSE

Net interest margin on a fully tax equivalent basis was 3.87% and 3.73% for the quarters ended June 30, 2017 and 2016, respectively, despite the inclusion of $775 thousand in interest expense for the three months ended June 30, 2017 from the Corporation s $50 million issuance of subordinated debt in September 2016 to help support balance sheet growth.

PROVISION FOR LOAN LOSSES

During the quarter ended June 30, 2017, the Corporation recorded a provision for loan losses of $1.1 million, as compared to a provision for loan losses of $220 thousand for the quarter ended June 30, 2016. Net chargeoffs in the second quarter of 2017 were $411 thousand, compared to net chargeoffs of $970 thousand in the second quarter of 2016. CNB Bank recorded net recoveries of $53 thousand and net chargeoffs of $346 thousand during the quarters ended June 30, 2017 and 2016, respectively. Holiday Financial Services Corporation recorded net chargeoffs totaling $464 thousand and $624 thousand during the quarters ended June 30, 2017 and 2016, respectively.

In the first quarter of 2017, one commercial real estate loan that was impaired at year end 2016 but still on accrual status was placed on nonaccrual status as a result of further deterioration in the financial condition of the borrower. An additional provision for loan losses recorded in the second quarter of 2017 related to this loan was $603 thousand, which was based on the most current financial information available from the borrower at the period end.

Management believes the provision for loan losses was appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of June 30, 2017.

NON-INTEREST INCOME

Net realized gains on available-for-sale securities were $155 thousand during the second quarter of 2017 and resulted from the sale of mortgage backed securities in order to generate liquidity to fund loan growth. In the second quarter of 2016, the Corporation realized gains on the sale of available-for-sale securities in the amount of $1.0 million, including $922 thousand on the sale of two structured pooled trust preferred securities that had no carrying value due to other-than-temporary impairment charges recorded in previous periods. Net realized and unrealized gains on trading securities were $127 thousand during the quarter ended June 30, 2017, compared to net realized and unrealized gains of $64 thousand during the quarter ended June 30, 2016.

On May 19, 2017, CNB completed its previously announced sale of the Mt. Hope, Ohio branch to First Federal Community Bank. CNB transferred loans totaling $7.8 million and deposits totaling $7.4 million in conjunction with the sale of the branch and realized a gain of $536 thousand based on the 8% deposit premium paid by First Federal Community Bank.

As a result of CNB s continued focus on growing its Private Client Solutions division, wealth and asset management revenues increased 22.1% from $780 thousand in the second quarter of 2016 to $952 thousand in the second quarter of 2017.

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NON-INTEREST EXPENSES

Total non-interest expenses were $17.8 million and $18.8 million during the quarters ended June 30, 2017 and 2016, respectively. Included in non-interest expenses in the second quarter of 2016 were $3.2 million of non-recurring items, with merger related expenses of $173 thousand, costs associated with our core processing system upgrade of $1.5 million, and a prepayment penalty associated with the early payoff of long-term borrowings of $1.5 million.

Salaries and benefits expense increased $994 thousand, or 12.6%, during the quarter ended June 30, 2017 compared to the quarter ended June 30, 2016. As of June 30, 2017, the Corporation had 493 full-time equivalent staff, compared to 453 full-time equivalent staff as of June 30, 2016. The staff added during this period included both customer-facing personnel such as business development and wealth management officers, as well as support department personnel. In addition, the Corporation retained 20 employees in connection with its acquisition of Lake National Bank in the third quarter of 2016. Occupancy expenses increased $376 thousand, or 20.0%, during the quarter ended June 30, 2017 compared to the quarter ended June 30, 2016, primarily as a result of two locations acquired from Lake National Bank in Mentor, Ohio during the third quarter of 2016, as well as locations in Worthington, Ohio; Ashtabula, Ohio; Blair County, Pennsylvania; and Buffalo, New York that have been opened since the end of the second quarter of 2016.

INCOME TAX EXPENSE

Income tax expense was $2.5 million in the second quarter of 2017 and $1.2 million in the second quarter of 2016, resulting in effective tax rates of 26.9% and 22.6% for the periods, respectively. The effective rates for the periods differed from the federal statutory rate of 35.0% principally as a result of tax exempt income from securities and loans as well as earnings from bank owned life insurance.

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CONSOLIDATED YIELD COMPARISONS

AVERAGE BALANCES AND NET INTEREST MARGIN FOR THE SIX MONTHS ENDED

Dollars in thousands

	June 30, 2017			June 30, 2016		
	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.
ASSETS:						
Securities:						
Taxable (1)	$ 339,938	2.55%	$ 4,316	$ 409,851	2.36%	$ 4,769
Tax-Exempt (1,2)	114,973	4.20%	2,374	127,899	4.25%	2,630
Equity Securities (1,2)	25,327	3.55%	450	18,146	4.33%	393
Total securities	480,238	2.99%	7,140	555,896	2.86%	7,792
Loans:						
Commercial (2)	608,906	4.90%	14,904	481,201	4.78%	11,506
Mortgage (2)	1,262,925	4.42%	27,928	1,051,634	4.36%	22,906
Consumer	79,204	9.40%	3,724	82,658	9.42%	3,894
Total loans (3)	1,951,035	4.77%	46,556	1,615,493	4.74%	38,306
Total earning assets	2,431,273	4.42%	$ 53,696	2,171,389	4.27%	$ 46,098
Non interest-bearing assets:						
Cash and due from banks	27,039			25,169		
Premises and equipment	50,320			40,355		
Other assets	133,904			92,289		
Allowance for loan losses	(16,809)			(16,662)		
Total non interest-bearing assets	194,454			141,151		
TOTAL ASSETS	$ 2,625,727			$ 2,312,540		
LIABILITIES AND SHAREHOLDERS' EQUITY:						
Demand interest-bearing	$ 544,257	0.35%	$ 957	$ 485,418	0.36%	$ 863
Savings	966,886	0.47%	2,264	946,094	0.46%	2,184
Time	225,766	1.01%	1,143	187,998	1.11%	1,046
Total interest-bearing deposits	1,736,909	0.50%	4,364	1,619,510	0.51%	4,093
Short-term borrowings	155,338	1.04%	804	87,109	0.50%	216

Long-term borrowings	110,882	1.42%	790	91,742	3.25%	1,492
Subordinated debentures	70,620	5.55%	1,958	20,620	3.81%	393
Total interest-bearing liabilities	2,073,749	0.76%	$ 7,916	1,818,981	0.68%	$ 6,194
Demand non interest-bearing	290,696			257,575		
Other liabilities	27,837			26,394		
Total liabilities	2,392,282			2,102,950		
Shareholders' equity	233,445			209,590		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,625,727			$ 2,312,540		
Interest income/Earning assets		4.42%	$ 53,696		4.27%	$ 46,098
Interest expense/Interest-bearing liabilities		0.76%	7,916		0.68%	6,194
Net interest spread		3.66%	$ 45,780		3.59%	$ 39,904
Interest income/Earning assets		4.42%	53,696		4.27%	46,098
Interest expense/Earning assets		0.65%	7,916		0.57%	6,194
Net interest margin		3.77%	$ 45,780		3.70%	$ 39,904

(1) Includes unamortized discounts and premiums. Average balance is computed using the carrying value of securities. The average yield has been computed using the historical amortized cost average balance for available for sale securities.

(2) Average yields are stated on a fully taxable equivalent basis.

(3) Average outstanding includes the average balance outstanding of all non-accrual loans. Loans consist of the average of total loans less average unearned income. The amount of loan fees included in the interest income on loans is not material.

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Six Months Ended June 30, 2017 and 2016

OVERVIEW OF THE INCOME STATEMENT

The Corporation had net income of $13.2 million in the six months ended June 30, 2017 compared to $9.1 million for the same period of 2016. The earnings per diluted share were $0.87 for the six months ended June 30, 2017 and $0.63 for the six months ended June 30, 2016. The annualized return on assets and return on equity for the six months ended June 30, 2017 are 1.00% and 11.28%, compared to 0.79% and 8.68%, respectively, for the same period of 2016.

Earnings in 2017 were impacted by a gain on the sale of a branch of $536 thousand and realized gains on the sale of available-for-sale securities of $1.5 million. Earnings in the second quarter of 2016 were impacted by a prepayment penalty on the early payoff of long-term borrowings of $1.5 million, core processing conversion costs of $1.6 million, merger costs of $215 thousand, and realized gains on the sale of available-for-sale securities of $1.0 million.

INTEREST INCOME AND EXPENSE

Net interest margin on a fully tax equivalent basis was 3.77% and 3.70% for the six months ended June 30, 2017 and 2016, respectively, despite the inclusion of $1.5 million in interest expense for the six months ended June 30, 2017 from the Corporation s $50 million issuance of subordinated debt in September 2016 to help support balance sheet growth.

PROVISION FOR LOAN LOSSES

During the six months ended June 30, 2017, the Corporation recorded a provision for loan losses of $2.2 million, as compared to a provision for loan losses of $1.4 million for the same period of 2016. Net chargeoffs in the first six months of 2017 were $1.2 million, compared to net chargeoffs of $2.2 million in the first six months of 2016. CNB Bank recorded net chargeoffs of $58 thousand and $655 thousand during the six months ended June 30, 2017 and 2016, respectively. Holiday Financial Services Corporation recorded net chargeoffs totaling $1.2 million and $1.5 million during the six months ended June 30, 2017 and 2016, respectively.

In the first quarter of 2017, one commercial real estate loan that was impaired at year end 2016 but still on accrual status was placed on nonaccrual status as a result of further deterioration in the financial condition of the borrower. The additional provision for loan losses recorded in 2017 related to this loan was $1.2 million, including $553 thousand in the first quarter and $603 thousand in the second quarter, which was based on the most current financial information available from the borrower as of each period end.

Management believes the provision for loan losses was appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of June 30, 2017.

NON-INTEREST INCOME

Net realized gains on available-for-sale securities for the six months ended June 30, 2017 were $1.5 million, including $1.4 million on the sale of two structured pooled trust preferred securities. Net realized gains on available-for-sale securities for the six months ended June 30, 2016 were $1.0 million, including $922 thousand on the sale of two structured pooled trust preferred securities.

On May 19, 2017, CNB completed its previously announced sale of the Mt. Hope, Ohio branch to First Federal Community Bank. CNB transferred loans totaling $7.8 million and deposits totaling $7.4 million in conjunction with the sale of the branch and realized a gain of $536 thousand based on the 8% deposit premium paid by First Federal Community Bank.

As a result of CNB s continued focus on growing its Private Client Solutions division, wealth and asset management revenues increased 21.3% from $1.5 million in the first six months of 2016 to $1.8 million in the first six months of 2017.

NON-INTEREST EXPENSES

Total non-interest expenses were $34.8 million during the six months ended June 30, 2017, compared to $33.6 million during the six months ended June 30, 2016. Included in non-interest expenses in 2016 were $3.3 million of non-recurring items, with merger related expenses of $215 thousand, costs associated with our core processing system upgrade of $1.6 million, and a prepayment penalty associated with the early payoff of long-term borrowings of $1.5 million.

Salaries and benefits expense increased $2.5 million, or 16.3%, during the six months ended June 30, 2017 compared to the six months ended June 30, 2016. As of June 30, 2017, CNB had 493 full-time equivalent staff, compared to 453 full-time equivalent staff as of June 30, 2016. The staff added during this period included both customer-facing personnel, such as business development and wealth management officers, as well as support department personnel. In addition, CNB retained 20 employees in connection with its acquisition of Lake National Bank in the third quarter of 2016. Occupancy expenses increased $1.1 million, or 29.0%, during the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Holiday Financial Services Corporation incurred non-recurring occupancy expenses totaling $141 thousand in 2017 as a result of the closure of two of its offices. The remainder of the increase in occupancy expenses is attributable to the two locations acquired from Lake National Bank in Mentor, Ohio, as well as locations in Worthington, Ohio; Ashtabula, Ohio; Blair County, Pennsylvania; and Buffalo, New York that have been opened since the end of the second quarter of 2016.

INCOME TAX EXPENSE

Income tax expense was $4.9 million during the six months ended June 30, 2017 and $2.9 million during the six months ended June 30, 2016, resulting in effective tax rates of 27.2% and 24.0% for the periods, respectively. The effective rates for the periods differed from the federal statutory rate of 35.0% principally as a result of tax exempt income from securities and loans as well as earnings from bank owned life insurance.

CRITICAL ACCOUNTING POLICIES

The Corporation s accounting and reporting policies are in accordance with GAAP and conform to general practices within the financial services industry. Accounting and reporting practices for the allowance for loan losses and fair value of securities are deemed critical since they involve the use of estimates and require significant management judgments. In addition, the fair value of assets acquired and liabilities assumed in connection with business combinations, including the associated goodwill that was recorded, required the use of material estimates. Application of assumptions different than those used by management could result in material changes in the Corporation s financial position or results of operations. Note 1 (Summary of Significant Accounting Policies), Note 2 (Business Combination), Note 4 (Securities), and Note 5 (Loans) of the Corporation s 2016 Form 10-K, provide detail with regard to the Corporation s accounting for the allowance for loan losses, the fair value of securities, business combinations and loans. There have been no significant changes in the application of accounting policies since December 31, 2016.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a financial institution, the Corporation s primary source of market risk is interest rate risk, which is the exposure to fluctuations in the Corporation s future earnings resulting from changes in interest rates. This exposure is correlated to the repricing characteristics of the Corporation s portfolio of assets and liabilities. Each asset or liability reprices either at maturity or during the life of the instrument.

The principal purpose of asset/liability management is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Net interest income is enhanced by increasing the net interest margin and by the growth in earning assets. As a result, the primary goal of interest rate risk management is to maintain a balance between risk and reward such that net interest income is maximized while risk is maintained at an acceptable level.

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The Corporation uses an asset-liability management model to measure the effect of interest rate changes on its net interest income. The Corporation s management also reviews asset-liability maturity gap and repricing analyses regularly. The Corporation does not always attempt to achieve a precise match between interest sensitive assets and liabilities because it believes that an actively managed amount of interest rate risk is inherent and appropriate in the management of the Corporation s profitability.

Asset-liability modeling techniques and simulation involve assumptions and estimates that inherently cannot be measured with precision. Key assumptions in these analyses include maturity and repricing characteristics of assets and liabilities, prepayments on amortizing assets, non-maturing deposit sensitivity, and loan and deposit pricing. These assumptions are inherently uncertain due to the timing, magnitude, and frequency of rate changes and changes in market conditions and management strategies, among other factors. However, the analyses are useful in quantifying risk and provide a relative gauge of the Corporation s interest rate risk position over time.

Management reviews interest rate risk on a quarterly basis and reports to the ALCO. This review includes earnings shock scenarios whereby interest rates are immediately increased and decreased by 100, 300, and 400 basis points. These scenarios, detailed in the table below, indicate that there would not be a significant variance in net interest income over a one-year period due to interest rate changes; however, actual results could vary significantly. Based on the most recent data available as of March 31, 2017, all interest rate risk levels according to the model were within the tolerance limits of ALCO approved policy. In addition, the table does not take into consideration changes that management would make to realign its assets and liabilities in the event of an unexpected change in the interest rate environment. Due to the current interest rate environment, the -300 and -400 scenarios have been excluded from the table.

March 31, 2017	
Change in Basis Points	% Change in Net Interest Income
400	(4.9%)
300	(2.9%)
100	0.7%
(100)	(1.4%)

ITEM 4

CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of the Corporation s management, including the Chief Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) (Exchange Act). Based on their evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that the Corporation s disclosure controls and procedures were effective as of the end of the period covered by this quarterly report to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. There were no changes in the Corporation s internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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Part II Other Information

ITEM 1. LEGAL PROCEEDINGS None

ITEM 1A. RISK FACTORS There have been no material changes to the risk factors disclosed in Part I, Item IA of the 2016 Form 10-K.

ITEM 2. ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information with respect to any purchase of shares of the Corporation s common stock made by or on behalf of the Corporation for the six months ended June 30, 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 31, 2017				449,730
February 1 28, 2017	38,000	$ 25.94	38,000	411,730
March 1 31, 2017				411,730
April 1 30, 2017				411,730
May 1 31, 2017				411,730
June 1 30, 2017	11,704	21.39	11,704	400,026

(1) The Corporation s stock repurchase program, which was announced on November 12, 2014, authorizes the repurchase of up to 500,000 shares of common stock. The program will remain in effect until fully utilized or until modified, suspended or terminated. As of June 30, 2017, there were 400,026 shares remaining in the program.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of the Corporation, filed as Appendix B to the 2006 Proxy Statement, filed with the SEC on March 24, 2006, and incorporated herein by reference.
3.2	By-Laws of the Corporation, as amended and restated, filed with the SEC as Exhibit 3.1 to the Corporation s current report on Form 8-K filed April 24, 2017, and incorporated herein by reference.
31.1	Rule 13a 14(a)/15d 14(a) Certification of the Principal Executive Officer
31.2	Rule 13a 14(a)/15d 14(a) Certification of the Principal Financial Officer
32.1	Section 1350 Certification

32.2	Section 1350 Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CNB FINANCIAL CORPORATION (Registrant)
DATE: August 4, 2017	/s/ Joseph B. Bower, Jr. Joseph B. Bower, Jr. President and Director (Principal Executive Officer)
DATE: August 4, 2017	/s/ Brian W. Wingard Brian W. Wingard Treasurer (Principal Financial Officer)

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