

CNB FINANCIAL CORP/PA  
Form 10-K  
March 04, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10 K**  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

Commission File Number 0-13396

**CNB FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

25-1450605  
(I.R.S. Employer Identification No.)

1 South Second Street

P.O. Box 42

Clearfield, Pennsylvania 16830

(Address of principal executive office)

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

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, no par value per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

## Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2015:

\$244,571,015

The number of shares outstanding of the registrant's common stock as of March 1, 2016:

14,458,430 shares

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the annual shareholders' meeting to be held on April 19, 2016 are incorporated by reference into Part III.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page Number</b>
<b><u>PART I.</u></b>	
ITEM 1. <u>Business</u>	1
ITEM 1A. <u>Risk Factors</u>	17
ITEM 1B. <u>Unresolved Staff Comments</u>	26
ITEM 2. <u>Properties</u>	26
ITEM 3. <u>Legal Proceedings</u>	26
ITEM 4. <u>Mine Safety Disclosures</u>	26
<b><u>PART II.</u></b>	
ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
ITEM 6. <u>Selected Financial Data</u>	29
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
ITEM 8. <u>Financial Statements and Supplementary Data</u>	46
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	105
ITEM 9A. <u>Controls and Procedures</u>	105
ITEM 9B. <u>Other Information</u>	107
<b><u>PART III.</u></b>	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	107
ITEM 11. <u>Executive Compensation</u>	107
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	107
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	107
ITEM 14. <u>Principal Accountant Fees and Services</u>	107
<b><u>PART IV.</u></b>	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	108
<b><u>SIGNATURES</u></b>	110

**Table of Contents**

**PART I.**

**ITEM 1. BUSINESS**

CNB Financial Corporation (the Corporation) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the BHC Act). It was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 for the purpose of engaging in the business of a financial holding company. On April 26, 1984, the Corporation acquired all of the outstanding capital stock of County National Bank, a national banking chartered institution. In December 2006, County National Bank changed its name to CNB Bank, referred to herein as the Bank, and became a state bank chartered in Pennsylvania and subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. In October 2013, the Corporation acquired FC Banc Corp. and its subsidiary, The Farmers Citizens Bank. As previously announced, on December 29, 2015 the Corporation and the Bank entered into a definitive merger agreement with Lake National Bank, a privately held financial institution headquartered in Mentor, Ohio, pursuant to which the Corporation will acquire Lake National Bank for \$22.50 per share in cash, or approximately \$24.75 million in the aggregate. The completion of this transaction is subject to customary closing conditions, including the receipt of certain regulatory approvals and the approval of Lake National Bank's shareholders.

In addition to the Bank, the Corporation has three other subsidiaries. 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, incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics.

**CNB Bank**

CNB Bank (the Bank) was incorporated in 1934 and is chartered in the Commonwealth of Pennsylvania. ERIEBANK, a division of CNB Bank, began operations in 2005. In October 2013, the Corporation acquired FC Banc Corp. and its subsidiary, Farmers Citizens Bank. Farmers Citizens Bank served the central Ohio markets of Bucyrus, Cardington, Fredericktown, Mount Hope and Shiloh, as well as the markets of Worthington and Upper Arlington in the greater Columbus, Ohio area, with 8 branch locations. The Corporation is continuing to operate these 8 branch locations as FCBank, a division of CNB Bank, with local decision making and oversight. An additional FCBank full service branch location was opened in 2014 in Dublin, Ohio.

The Bank has 38 full service branch offices and two loan production offices located in various communities in its market area. CNB Bank's primary market area includes the Pennsylvania counties of 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. As FCBank, a division of CNB Bank, the Bank operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Holmes, Delaware, and Franklin.

The Bank is a full service bank engaging in a full range of banking activities and services for individual, business, governmental and institutional customers. These activities and services principally include checking, savings, and time deposit accounts; real estate, commercial, industrial, residential and consumer loans; and a variety of other specialized financial services. The Bank's Wealth & Asset Management Services division offers a full range of client services.

## **Table of Contents**

### **Holiday Financial Services Corporation**

In 2005, the Corporation entered the consumer discount loan and finance business, which is conducted through a wholly owned subsidiary, Holiday Financial Services Corporation. Holiday currently has twelve offices within the Corporation's footprint. Management believes that it has made the necessary investments in experienced personnel and technology which has helped facilitate the growth of Holiday into a successful and profitable subsidiary.

### **Competition**

The financial services industry in the Corporation's service area continues to be extremely competitive, both among commercial banks and with other financial service providers such as consumer finance companies, thrifts, investment firms, mutual funds and credit unions. The increased competition has resulted from changes in the legal and regulatory guidelines as well as from economic conditions. Mortgage banking firms, leasing companies, financial affiliates of industrial companies, brokerage firms, retirement fund management firms, and even government agencies provide additional competition for loans and other financial services. Some of the financial service providers operating in the Corporation's market area operate on a large-scale regional or national basis and possess resources greater than those of the Corporation. The Corporation is generally competitive with all competing financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans.

### **Supervision and Regulation**

The Corporation is a bank holding company and a financial holding company and the Bank is a Pennsylvania state-chartered bank that is not a member of the Federal Reserve System. Accordingly, the Corporation is subject to the oversight of the Board of Governors of the Federal Reserve System (Federal Reserve Board) and the Pennsylvania Department of Banking, and the Bank is subject to the oversight of the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation ( FDIC ). The Corporation and Bank are also subject to various requirements and restrictions under federal and state law, such as requirements to maintain reserves against deposits, restrictions on the types, amounts and terms and conditions of loans that may be granted, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer financial protection laws and regulations also affect the operation of the Bank and, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), the Bureau of Consumer Financial Protection ( CFPB ) is authorized to write rules on consumer financial products which could affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board, including actions taken with respect to interest rates, as the Federal Reserve Board attempts to control the money supply and credit availability in the U.S. in order to influence the economy.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides certain specific information about us and our subsidiaries. It does not describe all of the provisions of the statutes, regulations and policies that are identified. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business.

**Table of Contents**

*Bank Holding Company Regulation*

As a bank holding company that controls a Pennsylvania state-chartered bank, the Corporation is subject to regulation and examination by the Pennsylvania Department of Banking and the Federal Reserve Board. We are required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the BHC Act, and applicable regulations. For instance, the BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of any class of voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking.

Pursuant to provisions of the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, the Corporation may only engage in, or own companies that engage in, activities deemed by the Federal Reserve Board to be permissible for bank holding companies or financial holding companies. Activities permissible for bank holding companies are those that are so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. Permissible activities for financial holding companies include those so closely related to banking as well as certain additional activities deemed financial in nature. The Corporation must obtain permission from or provide notice to the Federal Reserve Board prior to engaging in most new business activities.

Under Federal Reserve Board regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice or a violation of the Federal Reserve Board regulations or both. This doctrine is commonly known as the source of strength doctrine.

In May 2013, the Securities and Exchange Commission and the Commodity Futures Trading Commission (together, the Commissions) jointly issued final rules and guidelines to require certain regulated entities to establish programs to address risks of identity theft. The rules and guidelines implement provisions of the Dodd-Frank Act. These provisions amend Section 615(e) of the Fair Credit Reporting Act and directed the Commissions to adopt rules requiring entities that are subject to the Commissions' jurisdiction to address identity theft in two ways. First, the rules require financial institutions and creditors to develop and implement a written identity theft prevention program that is designed to detect, prevent, and mitigate identity theft in connection with certain existing accounts or the opening of new accounts. The rules include guidelines to assist entities in the formulation and maintenance of programs that would satisfy the requirements of the rules. Second, the rules establish special requirements for any credit and debit card issuers that are subject to the Commissions' jurisdiction, to assess the validity of notifications of changes of address under certain circumstances.

On July 2, 2013, the Federal Reserve Board issued final rules, and on July 9, 2013, the FDIC issued interim final rules that revise existing regulatory capital requirements to incorporate certain revisions to

## **Table of Contents**

the Basel capital framework, including Basel III, and to implement certain provisions of the Dodd-Frank Act. The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets.

The final rules, among other things:

revise minimum capital requirements and adjust prompt corrective action thresholds;

revise the components of regulatory capital, add a new minimum common equity Tier 1 capital ratio of 4.5% of risk-weighted assets, increase the minimum Tier 1 capital ratio requirement from 4% to 6%;

retain the existing risk-based capital treatment for 1-4 family residential mortgage exposures;

permit most banking organizations, including the Corporation, to retain, through a one-time permanent election, the existing capital treatment for accumulated other comprehensive income;

implement a new capital conservation buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% common equity Tier 1 capital ratio and be phased in over a three year period beginning January 1, 2016 which buffer is generally required to make capital distributions and pay executive bonuses;

require a minimum leverage ratio of 4%;

require a total capital ratio of 8%;

increase capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments;

require the deduction of mortgage servicing assets and deferred tax assets that exceed 10% of common equity Tier 1 capital in each category and 15% of common equity Tier 1 capital in the aggregate; and

remove references to credit ratings consistent with Dodd-Frank and establish due diligence requirements for securitization exposures.

Under the interim and final rules, compliance is required beginning January 1, 2015, for most banking organizations including the Corporation, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. The Corporation adopted Basel III on January 1, 2015 and continues to exceed all estimated well-capitalized regulatory requirements on a fully phased-in basis.

### *Regulation of CNB Bank*

CNB Bank is a Pennsylvania-chartered bank and is subject to regulation, supervision and regular examination by the Pennsylvania Department of Banking and the FDIC. Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the activities of

## Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

a bank with respect to mergers and acquisitions, the establishment of branches, management practices, and numerous other aspects of banking operations.



## **Table of Contents**

### *Legislation*

The Dodd-Frank Act, enacted into law on July 21, 2010, includes numerous provisions designed to strengthen the financial industry, enhance consumer financial protection, expand disclosures and provide for transparency, and significantly changed the bank regulatory structure and affected and will continue to affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act also created the CFPB, which is authorized to write rules on a number of consumer financial products, and the Financial Stability Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations.

It is difficult to predict at this time what specific impact certain provisions of the Dodd-Frank Act and the implementing rules and regulations, many which have yet to be written, will have on the Corporation, including regulations promulgated by the CFPB. The legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Corporation's ability to conduct business. The Corporation is applying resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase its costs of operations and adversely impact its earnings.

### *Dividend Restrictions*

The Corporation is a legal entity separate and distinct from the Bank. Declaration and payment of cash dividends depends upon cash dividend payments to the Corporation by the Bank, which is our primary source of revenue and cash flow. Accordingly, the right of the Corporation, and consequently the right of our creditors and shareholders, to participate in any distribution of the assets or earnings of any subsidiary is necessarily subject to the prior claims of creditors of the subsidiary, except to the extent that claims of the Corporation in its capacity as a creditor may be recognized.

As a Pennsylvania state-chartered bank, the Bank is subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code. Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements.

The payment of dividends by the Bank and the Corporation may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory requirements. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. A depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Federal banking regulators have the authority to prohibit banks and bank holding companies from paying a dividend if the regulators deem such payment to be an unsafe or unsound practice.

### *Capital Adequacy and Operations*

Under applicable prompt corrective action (PCA) statutes and regulations, depository institutions are placed into one of five capital categories, ranging from well capitalized to critically undercapitalized. The FDIC, in the case of the Bank, is required to take certain, and is authorized to

## **Table of Contents**

take other, supervisory action against a depository institution that falls below certain of these levels. The PCA statute and regulations provide for progressively more stringent supervisory measures as a depository institution's capital category declines. An institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. An undercapitalized depository institution must submit an acceptable capital restoration plan to the appropriate federal bank regulatory agency. One requisite element of such a plan is that the institution's parent holding company must guarantee compliance by the institution with the plan, subject to certain limitations.

At December 31, 2015, the Bank qualified as well capitalized under applicable regulatory capital standards.

### *Community Reinvestment Act*

Under the Community Reinvestment Act of 1977 (CRA), the FDIC is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community (including low and moderate income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank received a CRA rating of Satisfactory at its most current CRA exam.

### *Restrictions on Transactions with Affiliates and Insiders*

The Bank and Corporation also are subject to the restrictions of Sections 23A and 23B of the Federal Reserve Act, and their implementing Regulation W, issued by the Federal Reserve Board. Section 23A requires that loans or extensions of credit by the Bank to an affiliate, purchases of securities by the Bank issued by an affiliate, purchases of assets by the Bank from an affiliate (except as may be exempted by order or regulation), the acceptance by the Bank of securities issued by an affiliate as collateral and the issuance by the Bank of a guarantee, acceptance by the Bank of letters of credit on behalf of an affiliate (collectively, Covered Transactions) be on terms and conditions consistent with safe and sound banking practices. Section 23A also imposes quantitative restrictions on the amount of and collateralization requirements on such transactions. Section 23B requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets by the Bank to an affiliate and the payment of money or the furnishing of services by the Bank to an affiliate, be on terms comparable to those prevailing for similar transactions with non-affiliates.

The Bank is also subject to Sections 22(g) and 22(h) of the Federal Reserve Act, and their implementing Regulation O issued by the Federal Reserve Board. These provisions impose limitations on loans and extensions of credit by the Bank to its executive officers, directors and principal shareholders and their related interests as well as to the Corporation and any subsidiary of the Corporation. The limitations restrict the terms and aggregate amount of such transactions. Regulation O also imposes certain recordkeeping and reporting requirements.

### *Deposit Insurance and Premiums*

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. The Dodd-Frank Act has permanently increased the standard maximum deposit insurance amount to \$250,000 per depositor per insured depository institution, retroactive to January 1, 2008.

## **Table of Contents**

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

### *Other Federal Laws and Regulations*

State usury and other credit laws limit the amount of interest and various other charges collected or contracted by a bank on loans. The Bank is also subject to lending limits on loans to one borrower and regulatory guidance on concentrations of credit. The Bank's loans and other products and services are also subject to numerous federal and state consumer financial protection laws, including, but not limited to, the following:

Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;

Truth-in-Savings Act, which governs disclosures of the terms of deposit accounts to consumers;

Home Mortgage Disclosure Act, requiring financial institutions to provide information to regulators to enable determinations as to whether financial institutions are fulfilling their obligations to meet the home lending needs of the communities they serve and not discriminating in their lending practices;

Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, sex or other prohibited factors in extending credit;

Real Estate Settlement Procedures Act, which imposes requirements relating to real estate settlements, including requiring lenders to disclose certain information regarding the nature and cost of real estate settlement services;

Fair Credit Reporting Act, covering numerous areas relating to certain types of consumer information and identity theft;

Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require that financial institutions provide privacy policies to consumers, to allow customers to opt out of certain sharing of their nonpublic personal information, and to safeguard sensitive and confidential customer information.

Electronic Fund Transfer Act, which is a consumer protection law regarding electronic fund transfers;

The Bank Secrecy Act and USA Patriot Act, which require financial institutions to take certain actions to help prevent, detect and prosecute money laundering and the financing of terrorism; and

Numerous other federal and state laws and regulations, including those related to consumer protection and bank operations.

### *Sarbanes-Oxley Act of 2002*

The Sarbanes-Oxley Act of 2002 was enacted on July 30, 2002 and represented a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, as amended, including publicly-held financial holding companies such as the Corporation. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional



## **Table of Contents**

responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws.

### *Governmental Policies*

Our earnings are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates and to affect the strength of the economy, the level of inflation or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on our business and earnings.

### *Other Legislative Initiatives*

Proposals may be introduced in the United States Congress, in the Pennsylvania Legislature, and/or by various bank regulatory authorities that could alter the powers of, and restrictions on, different types of banking organizations and which could restructure part or all of the existing regulatory framework for banks, bank and financial holding companies and other providers of financial services. Moreover, other bills may be introduced in Congress which would further regulate, deregulate or restructure the financial services industry, including proposals to substantially reform the regulatory framework. It is not possible to predict whether any such proposals will be enacted into law or, even if enacted, the effect which they may have on our business and earnings.

## **Employees**

As of December 31, 2015, the Corporation had a total of 454 employees of which 402 were full time and 52 were part time.

**Table of Contents****Executive Officers**

The Corporation's named executive officers, their ages, and their principal occupations are as follows:

Name	Age	Principal Occupation
Joseph B. Bower, Jr.	52	President and Chief Executive Officer, CNB Bank and CNB Financial Corporation, since January 1, 2010; and previously, Secretary, CNB Financial Corporation and Executive Vice President and Chief Operating Officer, CNB Bank.
Richard L. Greslick, Jr.	39	Senior Executive Vice President/Chief Operating Officer, CNB Bank since December 2012 and Secretary, CNB Financial Corporation, since July 2010; previously, Senior Vice President/Administration since July 2010; Vice President/Operations since 2007; and previously Controller, CNB Bank and CNB Financial Corporation.
Mark D. Breakey	57	Senior Executive Vice President and Chief Credit Officer, CNB Bank since 2003.
Joseph E. Dell, Jr.	59	Executive Vice President and Chief Commercial Banking Officer, CNB Bank since December 31, 2013; previously, Senior Vice President and Senior Commercial Lending Officer since February 2013; previously, Chief Lending Officer and Commercial Line of Business Manager for First Security Group, Inc. and FSG Bank, N.A. from 2011 to February 2013; and previously served in various executive level positions with First Commonwealth Bank, including Chief Lending Officer and Commercial Line of Business Leader since 2008.
Brian W. Wingard	41	Treasurer, Principal Financial Officer and Principal Accounting Officer, CNB Financial Corporation, since March 2012; Executive Vice President/Chief Financial Officer, CNB Bank, since March 2012; previously Controller, CNB Bank and CNB Financial Corporation, since 2007; and previously a Certified Public Accountant in public practice.

Officers are elected annually at the reorganization meeting of the Board of Directors. There are no arrangements or understandings between any officer and any other persons pursuant to which he was selected as an officer.

## **Table of Contents**

### **Available Information**

The Corporation makes available free of charge on its website ([www.cnbbank.bank](http://www.cnbbank.bank)) its Annual Report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission, the SEC. Information on the Corporation's website is not incorporated by reference into this report.

Shareholders may obtain a copy of the Corporation's Annual Report on Form 10-K free of charge by writing to: CNB Financial Corporation, 1 South Second Street, PO Box 42, Clearfield, PA 16830, Attn: Shareholder Relations.

Interested persons may also read and copy materials the Corporation files with, or furnishes to, the SEC at the SEC's Public Reference Room at 100 F Street, NE Washington, DC 20549. Information concerning the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy statements and other information about electronic filers such as the Corporation. The site is available at <http://www.sec.gov>.

### **Statistical Disclosure**

The following tables set forth statistical information relating to the Corporation and its wholly owned subsidiaries. The tables should be read in conjunction with the consolidated financial statements of the Corporation.

**Table of Contents****Average Balances and Net Interest Margin****(Dollars in thousands)**

	December 31, 2015			December 31, 2014			December 31, 2013		
	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.	Average Balance	Annual Rate	Interest Inc./Exp.
<b>Assets</b>									
Securities:									
Taxable (1)	\$ 485,792	2.29%	\$ 10,977	\$ 565,859	2.34%	\$ 13,257	\$ 607,224	2.25%	\$ 13,456
Tax-Exempt (1, 2)	133,789	4.32%	5,680	131,551	4.38%	5,590	129,858	4.52%	5,743
Equity Securities (1, 2)	14,108	5.84%	824	10,925	4.96%	542	3,262	8.49%	277
Total Securities	633,689	2.80%	17,481	708,335	2.75%	19,389	740,344	2.67%	19,476
<b>Loans</b>									
Commercial (2)	449,970	4.78%	21,507	420,737	5.39%	22,679	311,914	4.86%	15,151
Mortgage (2)	937,978	4.62%	43,341	827,520	4.87%	40,274	675,408	4.77%	32,215
Consumer	72,215	10.68%	7,714	68,488	10.52%	7,207	65,107	10.93%	7,119
Total Loans (3)	1,460,163	4.97%	72,562	1,316,745	5.33%	70,160	1,052,429	5.18%	54,485
Total earning assets	2,093,852	4.32%	\$ 90,043	2,025,080	4.43%	\$ 89,549	1,792,773	4.15%	\$ 73,961
<b>Non Interest Earning Assets</b>									
Cash & Due From Banks	26,787			28,701			26,710		
Premises & Equipment	37,683			33,177			26,475		
Other Assets	91,046			91,452			64,399		
Allowance for Loan Losses	(17,487)			(17,334)			(15,496)		
Total Non Interest Earning Assets	138,029			135,996			102,088		
<b>Total Assets</b>	<b>\$ 2,231,881</b>			<b>\$ 2,161,076</b>			<b>\$ 1,894,861</b>		
<b>Liabilities and Shareholders Equity</b>									
<b>Interest-Bearing Deposits</b>									
Demand interest-bearing	\$ 451,784	0.35%	\$ 1,602	\$ 451,873	0.36%	\$ 1,616	\$ 388,237	0.38%	\$ 1,468
Savings	942,916	0.50%	4,734	958,574	0.48%	4,587	819,774	0.47%	3,885
Time	196,661	1.10%	2,162	203,885	1.03%	2,097	219,791	1.20%	2,642
Total interest-bearing deposits	1,591,361	0.53%	8,498	1,614,332	0.51%	8,300	1,427,802	0.56%	7,995
Short-term borrowings	62,136	0.26%	161	20,316	0.20%	41	21,602	0.27%	58
Long-term borrowings	77,874	3.93%	3,061	75,668	4.23%	3,200	75,018	4.52%	3,389
Subordinated Debentures	20,620	3.64%	751	20,620	3.62%	746	20,620	3.73%	770
Total interest-bearing liabilities	1,751,991	0.71%	\$ 12,471	1,730,936	0.71%	\$ 12,287	1,545,042	0.79%	\$ 12,212
Demand non-interest-bearing	257,842			229,144			186,180		
Other liabilities	24,361			20,220			17,076		
Total Liabilities	2,034,194			1,980,300			1,748,298		
Shareholders Equity	197,687			180,776			146,563		
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 2,231,881</b>			<b>\$ 2,161,076</b>			<b>\$ 1,894,861</b>		



## Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Interest Income/Earning Assets	4.32%	\$ 90,043	4.43%	\$ 89,549	4.15%	\$ 73,961
Interest Expense/Interest Bearing Liabilities	0.71%	12,471	0.71%	12,287	0.79%	12,212
<b>Net Interest Spread</b>	<b>3.61%</b>	<b>\$ 77,572</b>	<b>3.72%</b>	<b>\$ 77,262</b>	<b>3.36%</b>	<b>\$ 61,749</b>
Interest Income/Earning Assets	4.32%	\$ 90,043	4.43%	\$ 89,549	4.15%	\$ 73,961
Interest Expense/Earning Assets	0.59%	12,471	0.61%	12,287	0.68%	12,212
<b>Net Interest Margin</b>	<b>3.73%</b>	<b>\$ 77,572</b>	<b>3.82%</b>	<b>\$ 77,262</b>	<b>3.47%</b>	<b>\$ 61,749</b>

1. Includes unamortized discounts and premiums. Average balance is computed using the amortized cost of securities. The average yield has been computed using the historical amortized cost average balance for available for sale securities.
2. Average yields and interest income are stated on a fully taxable equivalent basis using the Corporation's marginal federal income tax rate of 35%. Interest income has been increased by \$2,865, \$2,667, and \$2,544 for the years ended December 31, 2015, 2014, and 2013, respectively, as a result of the effect of tax-exempt interest and dividends earned by the Corporation.
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. Included in loan interest income is loan fees of \$2,447, \$2,338, and \$1,732 for the years ended December 31, 2015, 2014, and 2013, respectively.

**Table of Contents**

Net Interest Income Rate-Volume Variance  (Dollars in thousands)	For Twelve Months Ended December 31, 2015 over (under) 2014			For Twelve Months Ended December 31, 2014 over (under) 2013		
	Due to Change In (1)			Due to Change In (1)		
	Volume	Rate	Net	Volume	Rate	Net
<b>Assets</b>						
Securities:						
Taxable	\$ (2,061)	\$ (219)	\$ (2,280)	\$ (2,093)	\$ (2,280)	\$ (4,373)
Tax-Exempt (2)	165	(75)	90	23	90	113
Equity Securities (2)	158	124	282	282	282	564
Total Securities	(1,738)	(170)	(1,908)	(1,788)	(1,908)	(3,696)
<b>Loans</b>						
Commercial (2)	1,574	(2,746)	(1,172)	(1,171)	(1,172)	(2,343)
Mortgage (2)	5,406	(2,339)	3,067	3,041	3,067	6,108
Consumer	390	117	507	509	507	1,016
Total Loans	7,370	(4,968)	2,402	2,379	2,402	4,781
<b>Total Earning Assets</b>	\$ 5,632	\$ (5,138)	\$ 494	\$ 591	\$ 494	\$ 1,085
<b>Liabilities and Shareholders Equity</b>						
<b>Interest-Bearing Deposits</b>						
Demand Interest-Bearing	\$ 10	\$ (24)	\$ (14)	\$ (25)	\$ (14)	\$ (39)
Savings	(61)	208	147	133	147	280
Time	(71)	136	65	62	65	127
Total Interest-Bearing Deposits	(122)	320	198	170	198	368
Short-Term Borrowings	83	37	120	120	120	240
Long-Term Borrowings	94	(233)	(139)	(140)	(139)	(279)
Subordinated Debentures	-	4	4	5	4	9
<b>Total Interest-Bearing Liabilities</b>	\$ 55	\$ 126	\$ 184	\$ 155	\$ 182	\$ 338
<b>Change in Net Interest Income</b>	\$ 5,577	\$ (5,264)	\$ 310	\$ 436	\$ 312	\$ 747

1. The change in interest due to both volume and rate have been allocated entirely to volume changes.
2. Changes in interest income on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 35%.

**Table of Contents**

**Securities**

(Dollars In Thousands)

	December 31, 2015				December 31, 2014				December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
<b>Securities Available for Sale</b>												
U.S. Government Sponsored Entities	\$141,300	\$1,579	\$(1,128)	\$141,751	\$155,482	\$2,301	\$(2,219)	\$155,564	\$185,205	\$2,894	\$(6,474)	\$181,625
State and Political Subdivisions	165,828	6,234	(243)	171,819	174,600	6,804	(402)	181,002	176,490	3,770	(2,317)	177,943
Residential and multi-family mortgage	160,316	1,060	(3,394)	157,982	265,678	2,291	(2,805)	265,164	248,017	2,410	(7,820)	242,607
Commercial mortgage	-	-	-	-	-	-	-	-	385	-	(11)	374
Corporate notes and bonds	19,794	165	(1,271)	18,688	20,791	139	(1,500)	19,430	15,744	65	(1,734)	14,075
Pooled trust preferred	800	2,613	-	3,413	800	105	-	905	800	-	(139)	661
Pooled SBA	51,556	760	(907)	51,409	63,139	1,074	(1,560)	62,653	70,077	688	(3,044)	67,721
Other securities	1,020	-	(39)	981	1,020	-	(18)	1,002	1,020	-	(35)	985
	\$540,614	\$12,411	\$(6,982)	\$546,043	\$681,510	\$12,714	\$(8,504)	\$685,720	\$697,738	\$9,827	\$(21,574)	\$685,991

**Maturity Distribution of Investment Securities**

(Dollars In Thousands)

December 31, 2015

	Maturity Distribution								Pooled SBA, Residential and Multi-Family Mortgage and Commercial Mortgage	
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		\$ Amt.	Yield (1)
	\$ Amt.	Yield (1)	\$ Amt.	Yield (1)	\$ Amt.	Yield (1)	\$ Amt.	Yield (1)		
<b>Securities Available for Sale (2)</b>										
U.S. Government Sponsored Entities	\$6,100	2.56%	\$95,564	1.70%	\$40,087	2.06%				
State and Political Subdivisions	13,692	4.47%	94,648	4.06%	46,223	4.54%	\$17,256	4.86%		
Corporate notes and bonds	1,600	0.58%	6,913	2.80%	2,029	1.82%	8,146	1.54%		
Pooled trust preferred							3,413	3.28%		
Pooled SBA									\$51,409	2.64%
Residential and multi-family mortgage									157,982	2.26%
<b>TOTAL</b>	\$21,392	3.63%	\$197,125	2.87%	\$88,339	3.35%	\$28,815	3.73%	\$209,391	2.35%

- (1) The weighted average yields are based on market value and effective yields weighted for the scheduled maturity with tax-exempt securities adjusted to a taxable-equivalent basis using a tax rate of 35%.
- (2) The portfolio contains no holdings of a single issuer that exceeds 10% of shareholders' equity other than the US Treasury and governmental sponsored entities.

**Table of Contents****LOAN PORTFOLIO**

(Dollars in thousands)

**A. TYPE OF LOAN**

	2015	2014	2013	2012	2011
Commercial, industrial and agricultural	\$ 475,364	\$ 428,458	\$ 427,715	\$ 257,091	\$ 253,324
Commercial mortgages	448,179	352,752	343,465	261,791	242,511
Residential real estate	574,225	502,317	459,114	347,904	298,628
Consumer	78,345	69,648	63,491	58,668	53,471
Credit cards	5,201	5,233	5,065	4,800	4,412
Overdrafts	1,040	1,188	409	971	423
Gross loans	1,582,354	1,359,596	1,299,259	931,225	852,769
Less: unearned income	4,556	4,307	3,896	3,401	2,886
Total loans net of unearned	\$ 1,577,798	\$ 1,355,289	\$ 1,295,363	\$ 927,824	\$ 849,883

**B. LOAN MATURITIES AND INTEREST SENSITIVITY**

	December 31, 2015			Total Gross Loans
	One Year or Less	One Through Five Years	Over Five Years	
<u>Commercial, industrial and agricultural</u>				
Loans With Fixed Interest Rate	\$ 80,206	\$ 74,473	\$ 56,360	\$ 211,039
Loans With Floating Interest Rate	84,802	82,515	97,008	264,325
	\$ 165,008	\$ 156,988	\$ 153,368	\$ 475,364

**C. RISK ELEMENTS**

	2015	2014	2013	2012	2011
Loans on non-accrual basis	\$ 12,159	\$ 9,190	\$ 11,573	\$ 14,445	\$ 16,567
Accruing loans which are contractually past due 90 days or more as to interest or principal payment	105	213	344	357	441
Performing troubled debt restructurings	9,304	14,771	8,006	9,961	7,688
	\$ 21,568	\$ 24,174	\$ 19,923	\$ 24,763	\$ 24,696

Interest income recorded on the non-accrual loans for the year ended December 31, 2015 was \$86. Additional interest income which would have been recorded on non-accrual loans had they been on accrual status was \$470 for the year ended December 31, 2015.

Loans are placed in non-accrual status when the interest or principal is 90 days past due, unless the loan is in collection, well secured and it is believed that there will be no loss of interest or principal.

At December 31, 2015, there were \$6,484 in special mention loans, \$42,091 in substandard loans, and \$649 in doubtful loans which are considered problem loans. These loans are not included in the table above. In the opinion of management, these loans are adequately secured and

losses are believed to be minimal.

**Table of Contents****SUMMARY OF LOAN LOSS EXPERIENCE**

(Dollars in Thousands)

Analysis of the Allowance for Loan Losses Years Ended December 31,	2015	2014	2013	2012	2011
Balance at beginning of Period	\$ 17,373	\$ 16,234	\$ 14,060	\$ 12,615	\$ 10,820
Charge-Offs:					
Commercial, industrial and agricultural	307	618	958	2,871	1,796
Commercial mortgages	486	50	1,931	401	175
Residential real estate	632	436	467	304	217
Consumer	1,956	1,744	1,919	1,279	907
Credit cards	116	78	97	78	39
Overdrafts	221	256	258	257	222
	3,718	3,182	5,630	5,190	3,356
Recoveries:					
Commercial, industrial and agricultural	267	1	7	45	9
Commercial mortgages	52	210	1,430	-	-
Residential real estate	8	41	5	1	13
Consumer	96	93	114	91	88
Credit cards	14	25	16	18	10
Overdrafts	85	111	94	99	94
	522	481	1,666	254	214
Net charge-offs	(3,196)	(2,701)	(3,964)	(4,936)	(3,142)
Provision for loan losses	2,560	3,840	6,138	6,381	4,937
Balance at end of period	\$ 16,737	\$ 17,373	\$ 16,234	\$ 14,060	\$ 12,615
Percentage of net charge-offs during the period to average loans outstanding	0.22%	0.21%	0.38%	0.55%	0.38%

The provision for loan losses reflects the amount deemed appropriate by management to establish an adequate reserve provide for probable incurred losses. Management's judgment is based on the evaluation of individual loans, the overall risk characteristics of various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

**Table of Contents****ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES**

(Dollars In Thousands)

	2015		2014		2013		2012		2011	
	% of		% of		% of		% of		% of	
	Loans		Loans		Loans		Loans		Loans	
	in		in		in		in		in	
	each		each		each		each		each	
	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category
Commercial, industrial, and agricultural	\$ 6,035	30.04%	\$ 7,114	31.51%	\$ 8,212	32.92%	\$ 4,940	27.61%	\$ 4,511	29.71%
Commercial mortgages	5,605	28.32%	5,310	25.95%	3,536	26.44%	4,697	28.11%	4,470	28.44%
Residential real estate	2,475	36.29%	2,479	36.95%	2,450	35.34%	2,466	37.36%	1,991	35.02%
Consumer	2,371	4.95%	2,205	5.12%	1,763	4.89%	1,699	6.30%	1,404	6.27%
Credit Cards	90	0.33%	71	0.38%	66	0.39%	83	0.51%	71	0.51%
Overdrafts	161	0.07%	194	0.09%	207	0.03%	175	0.10%	168	0.05%
<b>Total</b>	<b>\$ 16,737</b>	<b>100.00%</b>	<b>\$ 17,373</b>	<b>100.00%</b>	<b>\$ 16,234</b>	<b>100.00%</b>	<b>\$ 14,060</b>	<b>100.00%</b>	<b>\$ 12,615</b>	<b>100.00%</b>

In determining the allocation of the allowance for loan losses, the Corporation considers economic trends, historical patterns and specific credit reviews.

With regard to the credit reviews, a watchlist is evaluated on a monthly basis to determine potential commercial losses. Consumer loans and mortgage loans are allocated using historical loss experience.

**DEPOSITS**

(Dollars In Thousands)

	2015		Year Ended December 31, 2014		2013	
	Average	Annual	Average	Annual	Average	Annual
	Amount	Rate	Amount	Rate	Amount	Rate
Demand Non Interest Bearing	\$ 257,842		\$ 229,144		\$ 186,180	
Demand Interest Bearing	451,784	0.35%	451,873	0.36%	388,237	0.38%
Savings Deposits	942,916	0.50%	958,574	0.48%	819,774	0.47%
Time Deposits	196,661	1.10%	203,885	1.03%	219,791	1.20%
<b>TOTAL</b>	<b>\$ 1,849,203</b>		<b>\$ 1,843,476</b>		<b>\$ 1,613,982</b>	

The maturity of certificates of deposits and other time deposits in denominations of \$100,000 or more as of December 31, 2015 is as follows:

Three months or less	\$ 7,728
Greater than three months and through twelve months	11,607
Greater than one year and through three years	47,208
Greater than three years	8,646

\$ 75,189

**RETURN ON EQUITY AND ASSETS**

	Year Ended December 31,		
	2015	2014	2013
Return on average assets	0.99%	1.07%	0.88%
Return on average equity	11.23%	12.76%	11.38%
Dividend payout ratio	42.86%	41.26%	51.40%
Average equity to average assets ratio	8.86%	8.37%	7.73%



---

**Table of Contents**

**ITEM 1A. RISK FACTORS**

The Corporation's financial condition and results of operations are subject to various risks inherent in its business. The material risks and uncertainties that management believes affect the Corporation are described below. If any of these risks actually occur, the Corporation's business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected. You should consider all of the following risks together with all of the other information in this Annual Report on Form 10-K.

*The possibility of the economy's return to recessionary conditions and the possibility of further turmoil or volatility in the financial markets would likely have an adverse effect on the Corporation's business, financial position and results of operations.*

The Corporation continues to face risks resulting from the aftermath of the severe recession generally and the moderate pace of the current recovery. A slowing or failure of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on the Corporation and on others in the financial services industry. In particular, the Corporation may face the following risks in connection with the economic or market environment:

The Corporation's and the Bank's ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

The Corporation faces increased regulation of the banking and financial services industry. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.

Market developments may affect customer confidence levels and may cause increases in loan delinquencies and default rates, which management expects would adversely impact the Bank's charge-offs and provision for loan losses.

Market developments may adversely affect the Bank's securities portfolio by causing other-than-temporary-impairments, prompting write-downs and securities losses.

Competition in banking and financial services industry could intensify as a result of the consolidation of financial services companies in connection with current market conditions.

*The Bank's allowance for loan losses may not be adequate to cover loan losses which could have a material adverse effect on the Corporation's business, financial condition and results of operations.*

A significant source of risk for the Corporation arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Bank are secured, but some loans are unsecured based upon management's evaluation of the creditworthiness of the borrowers. With respect to secured loans, the collateral securing the repayment of these loans principally includes a wide variety of real estate, and to a lesser extent personal property, either of which may be insufficient to cover the obligations owed under such loans.

Collateral values and the financial performance of borrowers may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates and debt service levels, changes in oil and gas prices, changes in monetary and fiscal policies of the federal government, widespread disease, terrorist activity, environmental

---

**Table of Contents**

contamination and other external events, which are beyond the control of the Bank. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards might create the impression that a loan is adequately collateralized when in fact it is not. Although the Bank may acquire any real estate or other assets that secure defaulted loans through foreclosures or other similar remedies, the amounts owed under the defaulted loans may exceed the value of the assets acquired.

The allowance for loan losses is subject to a formal analysis by the credit administrator of CNB using a methodology whereby loan pools are segregated into special mention, substandard, doubtful and unclassified categories and the pools are evaluated based on historical loss factors. The Bank monitors delinquencies and losses on a monthly basis. The Bank has adopted underwriting and credit monitoring policies and procedures, including the review of borrower financial statements and collateral appraisals, which management believes are appropriate to mitigate the risk of loss by assessing the likelihood of borrower non-performance and the value of available collateral. The Bank also manages credit risk by diversifying its loan portfolio. An ongoing independent review, subsequent to management's review, of individual credits is performed by an independent loan review function, which reports to the Loan Committee of the Corporation's Board of Directors. However, such policies and procedures have limitations, including judgment errors in management's risk analysis, and may not prevent unexpected losses that could have a material adverse effect on the Corporation's business, financial condition and results of operations.

***Interest rate volatility could significantly reduce the Corporation's profitability.***

The Corporation's earnings largely depend on the relationship between the yield on its earning assets, primarily loans and investment securities, and the cost of funds, primarily deposits and borrowings. This relationship, commonly known as the net interest margin, is susceptible to significant fluctuation and is affected by economic and competitive factors that influence the yields and rates, and the volume and mix of the Bank's interest earning assets and interest bearing liabilities.

Interest rate risk can be defined as the sensitivity of net interest income and of the market value of financial instruments to the direction and frequency of changes in interest rates. Interest rate risk arises from the imbalance in the re-pricing, maturity and/or cash flow characteristics of assets and liabilities. The Corporation is subject to interest rate risk to the degree that its interest bearing liabilities re-price or mature more slowly or more rapidly or on a different basis than its interest earning assets. Changes in interest rates, including those due to federal monetary policy, will affect the levels of income and expense recorded on a large portion of the Bank's assets and liabilities, and fluctuations in interest rates will impact the market value of all interest sensitive assets. Significant fluctuations in interest rates could have a material adverse impact on the Corporation's business, financial condition, results of operations, or liquidity.

The Bank's interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of its balance sheet and off-balance sheet instruments as they relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on earnings, is determined through the use of static gap analysis and earnings simulation modeling under multiple interest rate scenarios. Management's objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in the Bank's balance sheet in order to preserve the sensitivity of net interest income to actual or potential changes in interest rates. At December 31, 2015, the interest rate sensitivity position was asset sensitive in the short-term. For further information on risk relating to interest rates, refer to Part I, Item 7a, Quantitative and Qualitative Disclosures about Market Risk, herein.

## **Table of Contents**

***The Bank's loans are principally concentrated in certain areas of Pennsylvania and Ohio, and adverse economic conditions in those markets could adversely affect the Corporation's business, financial condition and results of operations.***

The Corporation's success is dependent to a significant extent upon general economic conditions in the United States and, in particular, the local economies in northwest and central Pennsylvania and central Ohio, the primary markets served by the Bank. The Bank is particularly exposed to real estate and economic factors in these geographic areas, as most of its loan portfolio is concentrated among borrowers in these markets. Furthermore, because a substantial portion of the Bank's loan portfolio is secured by real estate in these areas, the value of the associated collateral is also subject to regional real estate market conditions.

The Bank is not immune to negative consequences arising from overall economic weakness and, in particular, a sharp downturn in the local real estate markets served by the Bank. While the Bank's loan portfolio has not shown significant signs of credit quality deterioration despite continued challenges in the U.S. economy, we cannot assure you that no deterioration will occur. An economic recession in the markets served by the Bank, and the nation as a whole, could negatively impact household and corporate incomes. This impact could lead to decreased loan demand and increase the number of borrowers who fail to pay the Bank interest or principal on their loans, and accordingly, could have a material adverse effect on the Corporation's business, financial condition, results of operations, or liquidity.

***The Corporation's investment securities portfolio is subject to credit risk, market risk, and liquidity risk, and declines in value in its investment securities portfolio may require it to record other than temporary impairment charges that could have a material adverse effect on its results of operations and financial condition.***

The Corporation's investment securities portfolio has risks beyond its control that can significantly influence the portfolio's fair value. These factors include, but are not limited to, rating agency downgrades of the securities, defaults of the issuers of the securities, lack of market pricing of the securities, and continued instability in the credit markets. Recent lack of market activity with respect to certain of the securities has, in certain circumstances, required the Corporation to base its fair market valuation on unobservable inputs. The Corporation has engaged valuation experts to price these certain securities using proprietary models, which incorporate assumptions that market participants would use in pricing the securities, including bid/ask spreads and liquidity and credit premiums. Any change in current accounting principles or interpretations of these principles could impact the Corporation's assessment of fair value and thus its determination of other-than-temporary impairment of the securities in its investment securities portfolio.

The Bank may be required to record other-than-temporary impairment charges on its investment securities if they suffer declines in value that are considered other-than-temporary. Numerous factors, including collateral deterioration underlying certain private label mortgage-backed securities, lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for certain investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could negatively effect the Bank's securities portfolio in future periods. An other-than-temporary impairment charge could have a material adverse effect on the Corporation's results of operations and financial condition.

## **Table of Contents**

***The Corporation is subject to extensive government regulation and supervision, which may interfere with its ability to conduct its business and may negatively impact its financial results.***

The Corporation, primarily through the Bank and certain non-bank subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, the Federal Deposit Insurance Fund and the safety and soundness of the banking system as a whole, not stockholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject it to additional costs, limit the types of financial services and products the Corporation may offer, and/or limit the pricing it may charge on certain banking services, among other things. Additionally, the Dodd-Frank Act has and will continue to change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. In addition to the self-implementing provisions of the statute, the Dodd-Frank Act calls for many administrative rulemakings by various federal agencies to implement various parts of the legislation, some of which have yet to be implemented. The Corporation cannot be certain when final rules affecting it will be issued through such rulemakings and what the specific content of such rules will be. The financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Corporation's ability to conduct business. The Corporation will have to apply resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase its costs of operations and adversely impact its earnings. Additionally, revised capital adequacy guidelines and prompt corrective action rules applicable to it became effective January 1, 2015. Compliance with these rules will impose additional costs on the Corporation.

Failure to comply with laws, including the Bank Secrecy Act and USA Patriot Act, regulations or policies could result in sanctions by regulatory agencies, restrictions, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations and/or cause the Corporation to lose its financial holding company status. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See the section captioned "Supervision and Regulation" in Part I, Item 1 of this report for further information.

***The Corporation relies on its management and other key personnel, and the loss of any of them may adversely affect its operations.***

The Corporation is and will continue to be dependent upon the services of its executive management team. In addition, it will continue to depend on its ability to retain and recruit key client relationship managers. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on its business and financial condition.

***Strong competition within the Corporation's markets and technological change may have a material adverse impact on its profitability.***

The Corporation competes with an ever-increasing array of financial service providers. As noted above, as a financial holding company and state-chartered financial institution, respectively, the

## **Table of Contents**

Corporation and the Bank are subject to extensive regulation and supervision, including, in many cases, regulations that limit the type and scope of activities. The non-bank financial service providers that compete with the Corporation and the Bank may not be subject to such extensive regulation, supervision, and tax burden. Competition from nationwide banks, as well as local institutions, is strong in the Corporation's markets.

The financial services industry is undergoing rapid technological change and technological advances are likely to intensify competition. In addition to improving customer services, effective use of technology increases efficiency and enables financial institutions to reduce costs. Accordingly, the Corporation's future success will depend in part on its ability to address customer needs by using technology. The Corporation cannot assure you that it will be able to successfully take advantage of technological changes or advances or develop and market new technology driven products and services to its customers.

Many regional, national and international competitors have far greater assets and capitalization than the Corporation has and greater resources to invest in technology and access to capital markets and can consequently offer a broader array of financial services than it can. We cannot assure you that we will continue to be able to compete effectively with other financial institutions in the future. Furthermore, developments increasing the nature or level of competition could have a material adverse effect on the Corporation's business, financial condition, results of operations, or liquidity. For further information on competition, refer to Part I, Item 1, "Competition" herein.

***A failure in or breach of the Corporation's or any of its subsidiaries' operational or security systems or infrastructure, or those of third party vendors and other service providers, including as a result of cyber attacks, could disrupt the Corporation's or any of its subsidiaries' businesses, result in the disclosure or misuse of confidential or proprietary information, damage its reputation, increase its costs and cause losses.***

The Corporation, primarily through the Bank, depends on its ability to continuously process, record and monitor a large number of customer transactions and customer, public and regulatory expectations regarding operational and information security have increased over time. Accordingly, its and its subsidiaries' operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Although the Corporation has business continuity plans and other safeguards in place, disruptions or failures in the physical infrastructure or operating systems that support its businesses and customers, or cyber attacks or security breaches of the networks, systems or devices on which customers' personal information is stored and that customers use to access the Corporation's and its subsidiaries' products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect the Corporation's results of operations or financial condition.

Although to date the Corporation has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that it or its subsidiaries will not suffer such losses in the future. The Corporation's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to implement our Internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served. As a result, cybersecurity and the continued development and enhancement of the Corporation's controls,

## **Table of Contents**

processes and practices designed to protect its and its subsidiaries systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Corporation. As cyber threats continue to evolve, the Corporation may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities.

***The Corporation may not be able to meet its cash flow needs on a timely basis at a reasonable cost, and the Corporation's cost of funds for banking operations may significantly increase as a result of general economic conditions, interest rates and competitive pressures.***

Liquidity is the ability to meet cash flow obligations as they come due and cash flow needs on a timely basis and at a reasonable cost. The liquidity of the Bank is used to make loans and to repay deposit and borrowing liabilities as they become due, or are demanded by customers and creditors. Many factors affect the Bank's ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and standing in the marketplace, and general economic conditions.

The Bank's primary source of funding is retail deposits, gathered throughout its network of banking offices. Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank of Pittsburgh, or FHLB, of which the Bank is a member, and other lenders to meet funding obligations. The Bank's securities and loan portfolios provide a source of contingent liquidity that could be accessed in a reasonable time period through sales.

Significant changes in general economic conditions, market interest rates, competitive pressures or otherwise, could cause the Bank's deposits to decrease relative to overall banking operations, and it would have to rely more heavily on brokered funds and borrowings in the future, which are typically more expensive than deposits.

Management and the Board of Directors of CNB, through its Asset/Liability Committee, or the ALCO, monitor liquidity and the ALCO establishes and monitors acceptable liquidity ranges. The Bank actively manages its liquidity position through target ratios. Continual monitoring of these ratios, both historical and through forecasts under multiple rate scenarios, allows the Bank to employ strategies necessary to maintain adequate liquidity.

Changes in economic conditions, including consumer savings habits and availability of or access to capital, could potentially have a significant impact on the Bank's liquidity position, which in turn could materially impact the Corporation's financial condition, results of operations and cash flows.

***A substantial decline in the value of the Bank's FHLB common stock may adversely affect the Corporation's results of operations, liquidity and financial condition.***

As a requirement of membership in the FHLB of Pittsburgh, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. Borrowings from the FHLB represent the Bank's primary source of short-term and long-term wholesale funding.

In an extreme situation, it is possible that the capitalization of an FHLB, including the FHLB of Pittsburgh, could be substantially diminished or reduced to zero. Consequently, given that there is no trading market for the Bank's FHLB common stock, the Corporation's management believes that there is a risk that the Corporation's investment could be deemed impaired at some time in the future. If this occurs, it may adversely affect the Corporation's results of operations and financial condition.

## **Table of Contents**

In addition, if the capitalization of the FHLB of Pittsburgh is substantially diminished, the Bank's liquidity may be adversely impaired if it is not able to obtain alternative sources of funding.

There are 12 banks of the FHLB, including Pittsburgh. The 12 FHLB banks are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB bank cannot meet its obligations to pay its share of the system's debt, other FHLB banks can be called upon to make the payment. The Corporation cannot assure you, however, that the FHLB system will be able to meet these obligations.

***The Bank could be held responsible for environmental liabilities relating to properties acquired through foreclosure, resulting in significant financial loss.***

In the event the Bank forecloses on a defaulted commercial or residential mortgage loan to recover its investment, it may be subject to environmental liabilities in connection with the underlying real property, which could significantly exceed the value of the real property. Although the Bank exercises due diligence to discover potential environmental liabilities prior to acquiring any property through foreclosure, hazardous substances or wastes, contaminants, pollutants, or their sources may be discovered on properties during its ownership or after a sale to a third party. The Corporation cannot assure you that the Bank would not incur full recourse liability for the entire cost of any removal and cleanup on an acquired property, that the cost of removal and cleanup would not exceed the value of the property, or that the Bank could recover any of the costs from any third party. Losses arising from environmental liabilities could have a material adverse impact on the Corporation's business, financial condition, results of operations, or liquidity.

***Federal and state governments could pass legislation responsive to current credit conditions which could cause the Corporation to experience higher credit losses.***

The Corporation could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Corporation could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank's ability to foreclose on property or other collateral or makes foreclosure less economically feasible. The Corporation cannot assure you that future legislation will not significantly and adversely impact its ability to collect on its current loans or foreclose on collateral.

***The preparation of the Corporation's financial statements requires the use of estimates that could significantly vary from actual results, which could have a material adverse effect on the Corporation's business, financial condition, results of operations or liquidity.***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make significant estimates that affect the financial statements. For example, one of these significant estimates is the allowance for loan losses. Due to the inherent nature of estimates, the Corporation cannot provide absolute assurance that it will not significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the provided allowance, which could have a material adverse effect on the Corporation's business, financial condition, results of operations or liquidity.

---

**Table of Contents**

*The Corporation's financial results may be subject to the impact of changes in accounting standards or interpretation in new or existing standards.*

From time to time the Financial Accounting Standards Board, or FASB, and the SEC change accounting regulations and reporting standards that govern the preparation of the Corporation's financial statements. In addition, the FASB, SEC, and bank regulators may revise their previous interpretations regarding existing accounting regulations and the application of these accounting standards. These revisions in their interpretations are out of the Corporation's control and may have a material impact on its financial statements.

*The unsoundness of other financial institutions with which the Corporation does business could adversely affect the Corporation's business, financial condition or results of operations.*

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, investment or other relationships. The Corporation routinely executes transactions with counterparties in the financial services industry such as commercial banks, brokers and dealers, investment banks and other institutional clients for a range of transactions including loan participations, derivatives and hedging transactions. In addition, the Corporation invests in securities or loans originated or issued by financial institutions or supported by the loans they originate. As a result, defaults by, or even rumors or questions about, one or more financial institutions, or the financial industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or other institutions. Many of these transactions expose the Corporation to credit or investment risk in the event of default by the Corporation's counterparty. In addition, the Corporation's credit risk may be exacerbated if the collateral it holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or other exposure to the Corporation. The Corporation could incur losses to its securities portfolio as a result of these issues. These types of losses may have a material adverse effect on the Corporation's business, financial condition or results of operation.

*Some provisions contained in the Corporation's articles of incorporation and its bylaws and under Pennsylvania law could deter a takeover attempt or delay changes in control or management of the Corporation.*

Certain anti-takeover provisions of the Pennsylvania Business Corporation Law of 1988, as amended, apply to Pennsylvania registered corporations (e.g., publicly traded companies) including, but not limited to, those relating to (1) control share acquisitions, (2) disgorgement of profits by certain controlling persons, (3) business combination transactions with interested shareholders, and (4) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law permits corporations to opt-out of these anti-takeover provisions, but the Corporation has not done so. Such provisions could have the effect of deterring takeovers or delaying changes in control or management of the Corporation. Additionally, such provisions could limit the price that some investors might be willing to pay in the future for shares of the Corporation's common stock.

For example, the Corporation's amended and restated articles of incorporation require the affirmative vote of 66% of the outstanding shares entitled to vote to effect a business combination. In addition, the Corporation's amended and restated articles of incorporation, subject to the limitations prescribed in such articles and subject to limitations prescribed by Pennsylvania law, authorize the Corporation's board of directors, from time to time by resolution and without further shareholder action, to provide



---

**Table of Contents**

for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof. As a result of its broad discretion with respect to the creation and issuance of preferred stock without shareholder approval, the board of directors could adversely affect the voting power and other rights of the holders of common stock and, by issuing shares of preferred stock with certain voting, conversion and/or redemption rights, could discourage any attempt to obtain control of CNB.

The Corporation's bylaws, as amended and restated, provide for the division of the Corporation's board of directors into three classes of directors, with each serving staggered terms. In addition, any amendment to the Corporation's bylaws must be approved by the affirmative vote of a majority of the votes cast by all shareholders entitled to vote thereon and, if any shareholders are entitled to vote thereon as a class, upon receiving the affirmative vote of a majority of the votes cast by the shareholders entitled to vote as a class.

Any of the foregoing provisions may have the effect of deterring takeovers or delaying changes in control or management of the Corporation.

***The price of the Corporation's common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.***

The price of the Corporation's common stock on the NASDAQ constantly changes. The Corporation expects that the market price of its common stock will continue to fluctuate, and the Corporation cannot give you any assurances regarding any trends in the market prices for its common stock.

The Corporation's stock price may fluctuate as a result of a variety of factors, many of which are beyond its control. These factors include the Corporation's:

- past and future dividend practice;
- financial condition, performance, creditworthiness and prospects;
- quarterly variations in the Corporation's operating results or the quality of the Corporation's assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to the Corporation's future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by the Corporation or its competitors;
- the operating and securities price performance of other companies that investors believe are comparable to the Corporation;
- future sales of the Corporation's equity or equity-related securities;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and
- instability in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility, budget deficits or sovereign debt level concerns and other geopolitical, regulatory or judicial events.

## **Table of Contents**

### ***The Corporation's ability to pay dividends is limited by law and regulations.***

The future declaration of dividends by the Corporation's Board of Directors will depend on a number of factors, including capital requirements, regulatory limitations, the Corporation's operating results and financial condition and general economic conditions. The Corporation's ability to pay dividends depends primarily on the receipt of dividends from the Bank. Dividend payments from the Bank are subject to legal and regulatory limitations, generally based on retained earnings, imposed by bank regulatory agencies. The ability of the Bank to pay dividends is also subject to financial condition, regulatory capital requirements, capital expenditures and other cash flow requirements. The Corporation cannot assure you that the Bank will be able to pay dividends to CNB in the future. The Corporation may decide to limit the payment of dividends to its stockholders even when the Corporation has the legal ability to pay them in order to retain earnings for use in the Corporation's business.

### ***The risks presented by acquisitions could adversely affect our financial condition and results of operations.***

Any acquisitions will be accompanied by the risks commonly encountered in acquisitions including, among other things: our ability to realize anticipated cost savings and avoid unanticipated costs relating to the merger, the difficulty of integrating operations and personnel, the potential disruption of our or the acquired company's ongoing business, the inability of our management to maximize our financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management. These risks may prevent the Corporation from fully realizing the anticipated benefits of an acquisition or cause the realization of such benefits to take longer than expected.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

## **ITEM 2. PROPERTIES**

The headquarters of the Corporation and the Bank are located at 1 South Second Street, Clearfield, Pennsylvania, in a building owned by the Corporation. The Bank operates 38 full-service offices and 2 loan production offices. Of these 38 offices, 23 are owned and 15 are leased from independent owners. Holiday Financial Services Corporation has twelve full-service offices of which ten are leased from independent owners and two are leased from the Bank. There are no encumbrances on the offices owned and the rental expense on the leased property is immaterial in relation to operating expenses. The initial lease terms range from one to twenty years.

## **ITEM 3. LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which the Corporation or any of its subsidiaries is a party, or of which any of their property is the subject, except ordinary routine proceedings which are incidental to the business.

## **ITEM 4. MINE SAFETY DISCLOSURES**

None

**Table of Contents****PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Quarterly Share Data; Holders**

Our common stock is traded on the Global Select Market of The NASDAQ Stock Market LLC under the symbol CCNE. The following tables set forth, for the periods indicated, the quarterly high and low sales price of the Corporation's common stock as reported by the NASDAQ Global Select Market and actual cash dividends paid per share. As of December 31, 2015, the approximate number of shareholders of record of the Corporation's common stock was 3,986.

**Price Range of Common Stock**

	2015		2014	
	High	Low	High	Low
First quarter	\$ 18.74	\$ 16.28	\$ 19.00	\$ 15.90
Second quarter	18.75	16.57	18.78	15.85
Third quarter	18.75	16.39	17.77	15.70
Fourth quarter	18.82	16.77	19.05	15.55

**Cash Dividends Paid**

	2015	2014
First quarter	\$ 0.165	\$ 0.165
Second quarter	0.165	0.165
Third quarter	0.165	0.165
Fourth quarter	0.165	0.165

See Note 18 to the consolidated financial statements in Item 8 and Supervision and Regulation Dividend Restrictions in Part I, Item 1 for a discussion of dividend restrictions.

**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 quarter ended December 31, 2015.

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

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

October 1	31, 2015	-	-	-	449,730(1)
November 1	31, 2015	-	-	-	449,730(1)
December 1	31, 2015	-	-	-	449,730(1)

**Table of Contents**

(1) The Corporation's new 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 December 31, 2015, there were 449,730 shares remaining in the program.

**Performance Graph**

Set forth below is a chart comparing the Corporation's cumulative return to stockholders against the cumulative return of the NASDAQ Composite Index and a Peer Group Index of banking organizations for the five-year period commencing December 31, 2010 and ending December 31, 2015.

<i>Index</i>	<i>Period Ending</i>					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
CNB Financial Corporation	100.00	111.71	120.90	145.63	147.24	149.03
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Bank NASDAQ	100.00	88.73	105.75	152.00	157.42	169.94

Source : SNL Financial LC, Charlottesville, VA

© 2016

[www.snl.com](http://www.snl.com)

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

(Dollars in thousands, except per share data)	Year ended December 31,				
	2015	2014	2013	2012	2011
<b>INTEREST AND DIVIDEND INCOME:</b>					
Loans including fees	\$ 71,814	\$ 69,512	\$ 53,927	\$ 49,760	\$ 48,324
Securities:					
Taxable	10,977	13,257	13,456	14,688	14,395
Tax-exempt	3,778	3,713	3,828	3,595	2,957
Dividends	609	400	205	86	36
<b>Total interest and dividend income</b>	<b>87,178</b>	<b>86,882</b>	<b>71,416</b>	<b>68,129</b>	<b>65,712</b>
<b>INTEREST EXPENSE:</b>					
Deposits	8,498	8,300	7,995	10,875	13,625
Borrowed funds	3,222	3,241	3,447	3,245	3,176
Subordinated debentures	751	746	770	800	778
<b>Total interest expense</b>	<b>12,471</b>	<b>12,287</b>	<b>12,212</b>	<b>14,920</b>	<b>17,579</b>
<b>NET INTEREST INCOME</b>	<b>74,707</b>	<b>74,595</b>	<b>59,204</b>	<b>53,209</b>	<b>48,133</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>2,560</b>	<b>3,840</b>	<b>6,138</b>	<b>6,381</b>	<b>4,937</b>
<b>Net interest income after provision for loan losses</b>	<b>72,147</b>	<b>70,755</b>	<b>53,066</b>	<b>46,828</b>	<b>43,196</b>
<b>NON-INTEREST INCOME</b>	<b>14,799</b>	<b>14,321</b>	<b>13,766</b>	<b>12,664</b>	<b>10,719</b>
<b>NON-INTEREST EXPENSES</b>	<b>56,457</b>	<b>52,688</b>	<b>43,813</b>	<b>35,945</b>	<b>33,282</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>30,489</b>	<b>32,388</b>	<b>23,019</b>	<b>23,547</b>	<b>20,633</b>
<b>INCOME TAX EXPENSE</b>	<b>8,292</b>	<b>9,314</b>	<b>6,340</b>	<b>6,411</b>	<b>5,529</b>
<b>NET INCOME</b>	<b>\$ 22,197</b>	<b>\$ 23,074</b>	<b>\$ 16,679</b>	<b>\$ 17,136</b>	<b>\$ 15,104</b>
<b>PER SHARE DATA:</b>					
Basic	\$ 1.54	\$ 1.60	\$ 1.29	\$ 1.38	\$ 1.23
Fully diluted	1.54	1.60	1.29	1.38	1.23
Dividends declared	0.66	0.66	0.66	0.66	0.66
Book value per share at year end	13.87	13.09	11.43	11.65	10.66
<b>AT END OF PERIOD:</b>					
Total assets	\$ 2,285,136	\$ 2,189,213	\$ 2,131,289	\$ 1,773,079	\$ 1,602,207
Securities	550,619	690,225	690,118	741,770	641,340
Loans, net of unearned discount	1,577,798	1,355,289	1,295,363	927,824	849,883
Allowance for loan losses	16,737	17,373	16,234	14,060	12,615
Deposits	1,815,053	1,847,079	1,835,314	1,485,003	1,353,851
FHLB and other borrowings	104,243	75,715	75,000	74,296	74,456
Subordinated debentures	20,620	20,620	20,620	20,620	20,620

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Shareholders equity	201,913	188,548	164,911	145,364	131,889
<b>KEY RATIOS:</b>					
Return on average assets	0.99%	1.07%	0.88%	1.00%	1.00%
Return on average equity	11.23%	12.76%	11.38%	12.17%	12.36%
Loan to deposit ratio	86.93%	73.37%	70.58%	62.48%	62.78%
Dividend payout ratio	42.86%	41.26%	51.40%	47.93%	53.79%
Average equity to average assets ratio	8.86%	8.37%	7.73%	8.22%	8.09%

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the consolidated financial statements of CNB Financial Corporation (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 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. As FCBank, a division of CNB Bank, the Bank operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Holmes, Delaware, and Franklin. The Bank is subject to regulation, supervision and examination by the Pennsylvania State Department of Banking as well as the Federal Deposit Insurance Corporation.

CNB Securities Corporation is incorporated in Delaware and currently maintains investments in debt and equity securities. County Reinsurance Company is an Arizona Corporation and provides credit life and disability insurance for customers of CNB Bank. 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.

The financial condition and results of operations of the Corporation and its consolidated subsidiaries are not necessarily indicative of future performance. Management's discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes.

Risk identification and management are essential elements for the successful management of the Corporation. In the normal course of business, the Corporation is subject to various types of risk, including interest rate, credit, and liquidity risk. These risks are controlled through policies and procedures established by the Corporation.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the direction and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of the financial instruments owned by the Corporation. The Corporation uses its asset/liability management policy and systems to control, monitor and manage interest rate risk.

Credit risk represents the possibility that a customer may not perform in accordance with contractual terms. Credit risk results from loans to customers and the purchase of securities. The Corporation manages credit risk by following an established credit policy and using a disciplined evaluation of the adequacy of the allowance for loan losses. Also, the investment policy limits the amount of credit risk that may be taken in the securities portfolio.

Liquidity risk represents the inability to generate or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers and obligations to depositors. The Corporation has established guidelines within its asset-liability management policy to manage liquidity risk. These guidelines include contingent funding alternatives.



---

**Table of Contents**

**Forward-Looking Statements**

The information below 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, plans, potentially, probably, projects, outlook or similar expressions or future conditional verbs such as may, will, should, would and could. Forward-looking 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 principals 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) deposit attrition; (xii) rapidly changing technology; (xiii) unanticipated regulatory or judicial proceedings and liabilities and other costs; (xiv) changes in the cost of funds, demand for loan products or demand for financial services; and (xv) other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices. Such developments 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.

**Acquisitions**

On December 30, 2015, the Corporation announced the signing of a definitive merger agreement to acquire Lake National Bank of Mentor, Ohio for \$22.50 per share in cash, or approximately \$24.75 million in the aggregate. The transaction is expected to close in the third quarter of 2016, subject to customary closing conditions, including regulatory approvals and the approval of Lake National Bank shareholders. Following completion of the merger, Lake National Bank will operate as part of the ERIEBANK division of CNB Bank. As of December 31, 2015, Lake National Bank had total assets of \$153.0 million, total loans of \$122.3 million, and total deposits of \$134.8 million.

**Table of Contents****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 2016 and beyond. While past results are not an indication of future earnings, management believes the Corporation is well-positioned to sustain core earnings during 2016.

The Dodd-Frank Act, enacted into law on July 21, 2010, includes numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency, and significantly changed the bank regulatory structure and affected and will continue to affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.

Because the Dodd-Frank Act has not been fully implemented, it is difficult to predict at this time what specific impact certain provisions of the Dodd-Frank Act and the implementing rules and regulations will have on the Corporation. The legislation and its implementing rules may have adverse implications on the financial industry, the competitive environment, and the Corporation's ability to conduct business. The Corporation is applying resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and its many and varied implementing rules, which may increase its costs of operations and adversely impact its earnings.

**Financial Condition**

The following table presents ending balances, growth, and the percentage change of certain measures of our financial condition for specified years (dollars in millions):

	2015 Balance	\$ Change vs. prior year	% Change vs. prior year	2014 Balance	\$ Change vs. prior year	% Change vs. prior year	2013 Balance
Total assets	\$ 2,285.1	\$ 95.9	4.4%	\$ 2,189.2	\$ 57.9	2.7%	\$ 2,131.3
Total loans, net	1,561.1	223.2	16.7	1,337.9	58.8	4.6	1,279.1
Total securities	550.6	(139.6)	(20.2)	690.2	0.1	0.0	690.1
Total deposits	1,815.1	(32.0)	(1.7)	1,847.1	11.8	0.6	1,835.3
Total shareholders' equity	201.9	13.4	7.1	188.5	23.6	14.3	164.9

**Table of Contents****Cash and Cash Equivalents**

Cash and cash equivalents totaled \$27.3 million at December 31, 2015 compared to \$27.9 million at December 31, 2014. Cash and cash equivalents fluctuate based on the timing and amount of liquidity events that occur in the normal course of business.

We believe 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 portion of the securities and loan portfolios that matures within one year. These sources of funds will enable the Corporation to meet cash obligations and off-balance sheet commitments as they come due.

**Securities**

Securities available for sale and trading securities totaled \$550.6 million and \$690.2 million at December 31, 2015 and 2014, respectively. Note 4 to the consolidated financial statements provides 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, we maintain a sufficient level of liquidity to satisfy depositor requirements and various credit needs of our customers.

**Loans**

The Corporation's lending is focused in the west central and northwest Pennsylvania and central Ohio markets and consists principally of commercial and retail lending, which includes single family residential mortgages and other consumer loans.

As detailed in the table below, at December 31, 2015, the Corporation had \$1.6 billion in loans outstanding, net of unearned discount, an increase of \$222.5 million, or 16.4%, since December 31, 2014. The increase was primarily the result of increasing loan demand throughout 2015, resulting in new loans of all types.

(dollars in thousands)	2015	2014
Commercial, industrial, and agricultural	\$ 475,364	\$ 428,458
Commercial mortgages	448,179	352,752
Residential real estate	574,225	502,317
Consumer	78,345	69,648
Credit cards	5,201	5,233
Overdrafts	1,040	1,188
Less: unearned discount	(4,556)	(4,307)
Total loans, net of unearned discount	\$ 1,577,798	\$ 1,355,289

**Table of Contents**

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

The Corporation expects lower loan growth in 2016 compared to 2015 as it maintains loan pricing and credit quality discipline in light of increasing competitive pressures.

**Loan Concentration**

The Corporation monitors loan concentrations by individual industries in order to track potential risk exposures resulting from industry related downturns. At December 31, 2015, no concentration existed within our commercial or real estate loan portfolio that exceeded 10% of the total loans.

**Loan Quality**

The Corporation has established written lending policies and procedures that require underwriting standards, loan documentation, and credit analysis standards to be met prior to funding a loan. Subsequent to the funding of a loan, ongoing review of credits is required. Credit reviews are performed annually on approximately 65% of the commercial loan portfolio by an outsourced loan review firm. In addition, classified assets, past due loans and nonaccrual loans are reviewed by the loan review partner semiannually and monthly by our credit administration staff.

The following table presents information concerning loan delinquency and other non-performing assets at December 31, 2015, 2014, and 2013 (dollars in thousands):

	2015	2014	2013
Non-accrual loans	\$ 12,159	\$ 9,190	\$ 11,573
Accrual loans greater than 89 days past due	105	213	344
<b>Total nonperforming loans</b>	<b>12,264</b>	<b>9,403</b>	<b>11,917</b>
Other real estate owned	654	806	986
<b>Total nonperforming assets</b>	<b>\$ 12,918</b>	<b>\$ 10,209</b>	<b>\$ 12,903</b>
Loans modified in a troubled debt restructuring (TDR):			
Performing TDR loans	\$ 9,304	\$ 14,771	\$ 8,006
Non-performing TDR loans *	5,637	3,887	4,130
<b>Total TDR loans</b>	<b>\$ 14,941</b>	<b>\$ 18,658</b>	<b>\$ 12,136</b>
Total loans, net of unearned income	\$ 1,577,798	\$ 1,355,289	\$ 1,295,363
Nonperforming loans as a percentage of loans, net	0.78%	0.69%	0.92%
Total assets	\$ 2,285,136	\$ 2,189,213	\$ 2,131,289
Nonperforming assets as a percentage of total assets	0.57%	0.47%	0.61%

\* - Nonperforming TDR loans are also included in the balance of non-accrual loans in the previous table.

Management continues to closely monitor nonperforming loans, and the Corporation's nonperforming loans to total loans ratio continues to be favorable compared to peer institutions. See the Allowance for Loan Losses section for further discussion of credit review procedures and changes in nonperforming loans.

**Table of Contents****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.

The following table presents activity within the allowance for loan losses during the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	2015	2014	2013
Balance at beginning of period	\$ 17,373	\$ 16,234	\$ 14,060
Charge-offs:			
Commercial, industrial, and agricultural	(307)	(618)	(958)
Commercial mortgages	(486)	(50)	(1,931)
Residential real estate	(632)	(436)	(467)
Consumer	(1,956)	(1,744)	(1,919)
Credit cards	(116)	(78)	(97)
Overdrafts	(221)	(256)	(258)
	(3,718)	(3,182)	(5,630)
Recoveries:			
Commercial, industrial, and agricultural	267	1	7
Commercial mortgages	52	210	1,430
Residential real estate	8	41	5
Consumer	96	93	114
Credit cards	14	25	16
Overdrafts	85	111	94
	522	481	1,666
Net charge-offs	(3,196)	(2,701)	(3,964)
Provision for loan losses	2,560	3,840	6,138
Balance at end of period	\$ 16,737	\$ 17,373	\$ 16,234
Loans, net of unearned income	\$ 1,577,798	\$ 1,355,289	\$ 1,295,363
Allowance to net loans	1.06%	1.28%	1.25%

At December 31, 2015, the ratio of the allowance for loan losses to loans was 1.06%, compared to 1.28% at December 31, 2014 and 1.25% at December 31, 2013. This reduction was driven by lower historical loss rates in 2015 compared to 2014 and 2013 in the commercial & industrial and commercial real estate portfolio segments, which led to lower loan loss provisions being needed during 2015 as compared to 2014.

The adequacy of the allowance for loan losses is subject to a formal analysis by the credit administrator 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, impaired loans are selected and that group of loans is given a specific reserve. The remaining loans are pooled, by category, into these segments:

**Reviewed**

Commercial, industrial, and agricultural

Commercial mortgages

**Table of Contents****Homogeneous**

Residential real estate  
 Consumer  
 Credit cards  
 Overdrafts

The reviewed loan pools are further segregated into three categories: special mention, substandard, and doubtful. Historical loss factors are calculated for each reviewed 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.

The historical loss factors for both the reviewed and homogeneous pools are adjusted based on these 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, ability and depth of management;  
 national and local economic trends and conditions; and  
 concentrations of credit.

The methodology described above was created using the experience of our credit administrator, guidance from the regulatory agencies, expertise of our third party loan review provider, and discussions with our peers. The resulting factors are applied to the pool balances in order to estimate the probable risk of loss within each pool.

As a result of the application of these procedures, the allocation of the allowance for loan losses was as follows at December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Commercial, industrial and agricultural	\$ 6,035	\$ 7,114	\$ 8,212
Commercial mortgages	5,605	5,310	3,536
Residential real estate	2,475	2,479	2,450
Consumer	2,371	2,205	1,763
Credit cards	90	71	66
Overdrafts	161	194	207
<b>Total</b>	<b>\$ 16,737</b>	<b>\$ 17,373</b>	<b>\$ 16,234</b>

Throughout 2015, the Corporation evaluated its provision and allowance for loan losses in light of changes in reserves required for impaired loans, changes in nonperforming loans, and growth in loans outstanding. Note 5 to the consolidated financial statements provides further disclosure of loan balances by portfolio segment as of December 31, 2015 and 2014, as well as the nature and scope of loans modified in a troubled debt restructuring during 2015 and 2014 and the related effect on the provision and allowance for loan losses.

During the year ended December 31, 2015, the Corporation recorded a provision for loan losses of \$2.6 million, as compared to a provision for loan losses of \$3.8 million for the year ended December 31,

**Table of Contents**

2014. Improving historical loan loss trends contributed to the lower loan loss provisions for the year ended December 31, 2015 compared to the year ended December 31, 2014.

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 considered numerous historical and other factors to analyze the adequacy of the allowance and charges against the provision for loan losses. Management paid special attention to a section of the analysis that compared and plotted 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. By noting the spread at that time, as well as prior periods, management can evaluate the current adequacy of the allowance as well as evaluate 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 a competitive advantage and continues to focus on this area as part of its strategic growth initiatives. However, management must also consider the fact that the inherent risk is more pronounced in these types of credits and is also driven by the economic environment of its market areas.

Management believes that both its 2015 provision and allowance for loan losses were reasonable and adequate to absorb probable incurred losses in its portfolio at December 31, 2015.

**Bank Owned Life Insurance**

The Corporation has periodically purchased Bank Owned Life Insurance ( BOLI ). The policies cover executive officers and a select group of other employees with the Bank being named as beneficiary. Earnings from BOLI assist the Corporation in offsetting its benefit costs. Additional BOLI of \$5.0 million was purchased during the year ended December 31, 2014 and no BOLI was purchased during the year ended December 31, 2015. In addition, BOLI with a fair value of \$4.0 million was acquired from FC Banc Corp and proceeds from BOLI death benefits were \$1.3 million during the year ended December 31, 2013.

**Funding Sources**

Although the Corporation considers short-term borrowings and long-term debt when evaluating funding sources, traditional deposits continue to be the main source for funding.

	Percentage change 2015 vs. 2014	Percentage change 2014 vs. 2013	2015	2014	2013
Demand, Non interest bearing	7.7%	10.6%	\$ 263,639	\$ 244,743	\$ 221,293
Demand, Interest bearing	(2.9%)	0.6%	440,174	453,102	450,216
Savings deposits	(4.7%)	8.3%	927,074	972,327	898,043
Time deposits	4.1%	(33.4%)	184,166	176,907	265,762
Total	(1.7%)	0.6%	\$ 1,815,053	\$ 1,847,079	\$ 1,835,314



**Table of Contents**

Periodically, the Corporation utilizes term borrowings from the Federal Home Loan Bank (FHLB) and other lenders to meet funding obligations or match fund certain loan assets. The terms of these borrowings are detailed in Note 11 to the consolidated financial statements.

**Shareholders Equity and Capital Ratios and Metrics**

The Corporation's capital continues to provide a base for profitable growth. In 2015, the Corporation earned \$22.2 million and declared dividends of \$9.5 million, resulting in a dividend payout ratio of 42.9% of net income.

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%, or 100% (highest risk assets), is assigned to each asset on the balance sheet.

The Corporation's capital ratios and book value per common share at December 31, 2015 and 2014 are as follows:

	2015	2014
Total risk-based capital ratio	13.39%	14.30%
Tier 1 capital ratio	12.33%	13.06%
Common equity tier 1 ratio	11.07%	n/a
Leverage ratio	8.73%	8.39%
Tangible common equity/tangible assets (1)	7.64%	7.32%
Book value per share	\$ 14.01	\$ 13.09
Tangible book value per share (1)	\$ 11.96	\$ 10.97

**Table of Contents**

- (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 other intangible assets from the calculation of stockholders' equity. Tangible assets is calculated by excluding the balance of goodwill and other intangible assets 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 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 per share data).

	December 31, 2015	December 31, 2014
Shareholders' equity	\$ 201,913	\$ 188,548
Less goodwill	27,194	27,194
Less core deposit intangible	2,395	3,403
 Tangible common equity	 \$ 172,324	 \$ 157,951
 Total assets	 \$ 2,285,136	 \$ 2,189,213
Less goodwill	27,194	27,194
Less core deposit intangible	2,395	3,403
 Tangible assets	 \$ 2,255,547	 \$ 2,158,616
 Ending shares outstanding	 14,407,980	 14,404,416
Tangible book value per share	\$ 11.96	\$ 10.97
Tangible common equity/tangible assets	7.64%	7.32%

**Liquidity**

Liquidity measures an organization's ability to meet its cash obligations as they come due. The consolidated statements of cash flows included in the accompanying financial statements provide analysis of the Corporation's cash and cash equivalents and the sources and uses of cash. Additionally, the portion of the loan portfolio that matures within one year and securities with maturities within one year in the investment portfolio are considered part of the Corporation's liquid assets. Liquidity is monitored by both management and the Board's ALCO, which establishes and monitors ranges of acceptable liquidity. Also, the Bank is a member of FHLB which provides the Bank with a total borrowing line of approximately \$604 million with approximately \$393 million available at December 31, 2015. Management believes that the Corporation's current liquidity position is acceptable.

**Year Ended December 31, 2015 vs. Year Ended December 31, 2014****Overview of the Income Statement**

The Corporation had net income of \$22.2 million for 2015 compared to \$23.1 million for 2014. Net interest income increased \$112 thousand, or 0.2%, and non-interest income increased \$478 thousand, or 3.3%. The provision for loan losses decreased by \$1.3 million, or 33.3%, and non-interest expenses

## Table of Contents

increased by \$3.8 million, or 7.2%. The earnings per diluted share were \$1.54 in 2015 and \$1.60 in 2014. The return on assets and the return on equity for 2015 were 0.99% and 11.23% as compared to 1.07% and 12.76% for 2014.

### Interest Income and Expense

Net interest margin on a fully tax equivalent basis was 3.73% and 3.82% for the years ended December 31, 2015 and 2014, respectively. Net accretion included in loan interest income in 2015 related to loans acquired in the fourth quarter of 2013 was \$2.2 million for the year ended December 31, 2015, resulting in an increase in the net interest margin of 11 basis points. Net accretion included in loan interest income in 2014 related to loans acquired in the fourth quarter of 2013 was \$2.9 million for the year ended December 31, 2014, resulting in an increase in the net interest margin of 14 basis points.

### Provision for Loan Losses

The Corporation recorded a provision for loan losses of \$2.6 million in 2015 compared to \$3.8 million in 2014. Net loan charge-offs were \$3.2 million during the year ended December 31, 2015 compared to \$2.7 million during the year ended December 31, 2014. As disclosed in the Allowance for Loan Losses section of Management's Discussion and Analysis, the Corporation recorded the provision for loan losses based on management's evaluation of impaired loans and consideration of trends in criticized and classified loans and historical loan losses.

Management believes the charges to the provision in 2015 are appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of December 31, 2015.

### Non-Interest Income

Excluding the effects of securities transactions, non-interest income was \$14.8 million for the year ended December 31, 2015, compared to \$14.3 million for the year ended December 31, 2014. Net realized gains on available-for-sale securities were \$666 thousand during the year ended December 31, 2015, compared to \$429 thousand during the year ended December 31, 2014. Net realized and unrealized losses on trading securities were \$213 thousand during the year ended December 31, 2015, compared to net realized and unrealized gains of \$121 thousand during the year ended December 31, 2014.

Wealth and asset management fees increased to \$3.0 million for the year ended December 31, 2015, from \$2.9 million during the year ended December 31, 2014 due to increases in assets under management resulting from CNB's strategic focus to grow its Wealth and Asset Management Division. Income recorded from bank owned life insurance policies increased to \$1.2 million for the year ended December 31, 2015, from \$1.0 million during the year ended December 31, 2014.

### Non-Interest Expense

Total non-interest expenses were \$56.5 million during the year ended December 31, 2015, compared to \$52.7 million during the year ended December 31, 2014. CNB recorded amortization expense associated with a core deposit intangible asset of \$1.0 million and \$1.2 million during the years ended December 31, 2015 and 2014, respectively.

---

## **Table of Contents**

Salaries and employee benefit expenses increased \$2.6 million, or 9.5%, during the year ended December 31, 2015 compared to the year ended December 31, 2014. During 2015, CNB added 27 full-time equivalent staff, which included both customer-facing personnel such as business development and wealth management officers, as well as support department personnel. Additional salary and benefit expense increases can be attributed to routine merit increases and increases in certain employee benefit expenses, such as health insurance premiums, which continue to increase in line with market conditions.

The ratio of non-interest expenses to average assets was 2.53% and 2.43% during the years ended December 31, 2015 and 2014, respectively.

## **Year Ended December 31, 2014 vs. Year Ended December 31, 2013**

### **Overview of the Income Statement**

The Corporation had net income of \$23.1 million for 2014 compared to \$16.7 million for 2013. Net interest income increased \$15.4 million, or 26.0%, and non-interest income increased \$555 thousand, or 4.0%. The provision for loan losses decreased by \$2.3 million, or 37.4%, and non-interest expenses increased by \$8.9 million, or 20.3%. The earnings per diluted share were \$1.60 in 2014 and \$1.29 in 2013. The return on assets and the return on equity for 2014 were 1.07% and 12.76% as compared to 0.88% and 11.38% for 2013. Non-interest expenses for the year ended December 31, 2013 include \$2.4 million associated with merger related expenses. As described in Note 2 to the consolidated financial statements, FC Banc Corp. s results of operations were included in the Corporation s results beginning October 12, 2013.

### **Interest Income and Expense**

Net interest margin on a fully tax equivalent basis was 3.82% and 3.46% for the years ended December 31, 2014 and 2013, respectively. Net accretion included in loan interest income in 2014 related to loans acquired in the fourth quarter of 2013 was \$2.9 million for the year ended December 31, 2014, resulting in an increase in the net interest margin of 14 basis points. Changes in average earning assets, interest-bearing liabilities, and resulting net interest income in 2014 compared to 2013 are primarily a result of the acquisition of FC Banc Corp. in the fourth quarter of 2013.

### **Provision for Loan Losses**

The Corporation recorded a provision for loan losses of \$3.8 million in 2014 compared to \$6.1 million in 2013. Net loan charge-offs were \$2.7 million during the year ended December 31, 2014 compared to \$4.0 million during the year ended December 31, 2013. As disclosed in the Allowance for Loan Losses section of Management s Discussion and Analysis, the Corporation recorded the provision for loan losses based on management s evaluation of impaired loans and also recorded a reduction in its allowance for loan losses due to the payoff of loan relationships that had been classified as substandard.

Management believes the charges to the provision in 2014 are appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of December 31, 2014.

### **Non-Interest Income**

Excluding the effects of securities transactions, non-interest income was \$14.3 million for the year ended December 31, 2014, compared to \$13.8 million for the year ended December 31, 2013. Net realized gains on available-for-sale securities were \$429 thousand during the year ended December 31,

## **Table of Contents**

2014, compared to \$355 thousand during the year ended December 31, 2013. Net realized and unrealized gains on trading securities were \$121 thousand during the year ended December 31, 2014, compared to \$728 thousand during the year ended December 31, 2013.

Wealth and asset management fees increased to \$2.9 million for the year ended December 31, 2014, from \$2.4 million during the year ended December 31, 2013 due to increases in assets under management resulting from CNB's strategic focus to grow its Wealth and Asset Management Division. Income recorded from bank owned life insurance policies decreased to \$1.0 million for the year ended December 31, 2014, from \$1.6 million during the year ended December 31, 2013. The 2013 income included \$576 thousand representing the excess of the face value of certain policies over their cash surrender values resulting from the maturity of the policies.

## **Non-Interest Expense**

Total non-interest expenses were \$52.7 million during the year ended December 31, 2014, compared to \$43.8 million during the year ended December 31, 2013. CNB recorded amortization expense associated with a core deposit intangible asset of \$1.2 million and \$251 thousand during the years ended December 31, 2014 and 2013, respectively. Non-interest expenses for the year ended December 31, 2013 include merger-related expenses of \$2.4 million in connection with CNB's acquisition of FC Banc Corp. in the fourth quarter of 2013.

Salaries and employee benefit expenses increased \$5.3 million, or 24.3%, during the year ended December 31, 2014 compared to the year ended December 31, 2013, due to an increase in average full-time equivalent employees resulting primarily from the acquisition of FC Banc Corp., routine merit increases, and increases in certain employee benefit expenses, such as health insurance premiums, which continue to increase in line with market conditions. Net occupancy expenses increased \$1.4 million, or 25.5% during the year ended December 31, 2014 compared to the year ended December 31, 2013, as a result of anticipated increases in repair, maintenance, and utility expenses, increases in depreciation expense for recently completed projects and asset purchases, the addition of eight branch locations from the acquisition of FC Banc Corp. and the opening of a new branch in Dublin, Ohio. The remaining non-interest expenses increased during the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily as a result of the acquisition of FC Banc Corp.

The ratio of non-interest expenses to average assets was 2.43% and 2.31% during the years ended December 31, 2014 and 2013, respectively.

## **Income Tax Expense**

Income taxes were \$8.3 million in 2015, compared to \$9.3 million in 2014 and \$6.3 million in 2013. The effective tax rates were 27.2%, 28.8%, and 27.5% for 2015, 2014 and 2013, respectively. The effective tax rate 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.

## **Contractual Obligations and Commitments**

The Corporation has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents, as of December 31, 2015, significant fixed and determinable contractual obligations to third parties by payment date.

**Table of Contents**

Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

(dollars in thousands)	Note Reference	Payments Due In				Total
		One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
Deposits without a stated maturity		\$ 1,630,888	\$ 0	\$ 0	\$ 0	\$ 1,630,888
Certificates of deposit	10	50,792	105,506	20,493	7,374	184,165
FHLB and other borrowings	11	136,361	75,686	4,438	4,030	220,515
Operating leases	7	907	1,132	593	1,967	4,599
Sale-leaseback	7	105	210	210	630	1,155
Subordinated debentures	11	0	0	0	20,620	20,620

The Corporation's operating lease obligations represent short and long-term lease and rental payment for facilities. The Corporation's sale-leaseback obligation represents a long-term real estate lease associated with one of the Corporation's branch office locations.

The Corporation also has obligations under its postretirement plan for health care and supplemental executive retirement plan as described in Note 14 to the consolidated financial statements. The postretirement benefit payments represent actuarially determined future benefit payments to eligible plan participants. The supplemental executive retirement plan allocates expenses over the participant's service period. The Corporation reserves the right to terminate these plans at any time.

**Off-Balance Sheet Arrangements**

See Note 19 to the consolidated financial statements for information about our off-balance sheet arrangements.

**Applications of Critical Accounting Policies**

The Corporation's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S. and follow general practices within the industries in which the Corporation operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

## **Table of Contents**

The most significant accounting policies used by the Corporation are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements.

A material estimate that is susceptible to significant change is the determination of the allowance for loan losses. The Corporation's methodology for determining the allowance for loan losses is described previously in Management's Discussion and Analysis. Given the subjective nature of identifying and valuing loan losses, it is likely that well-informed individuals could make materially different assumptions and could therefore calculate a materially different allowance value. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Another material estimate is the calculation of fair values of the Corporation's debt securities. For most of the Corporation's debt securities, the Corporation receives estimated fair values from an independent valuation service or from brokers. In developing fair values, the valuation service and the brokers use estimates of cash flows, based on historical performance of similar instruments in similar interest rate environments. Based on experience, management is aware that estimated fair values of debt securities tend to vary among brokers and other valuation services.

Finally, the fair value of assets acquired and liabilities assumed in connection with the acquisition of FC Banc Corp., including the associated goodwill that was recorded, required the use of material estimates. Specifically, the fair values of loans, the core deposit intangible asset, premises and equipment, and time deposits were susceptible to estimation and management's judgment about real estate and equipment values, as well as the amount and timing of future cash flows associated with loans and deposits.

## **ITEM 7A 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.

**Table of Contents**

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. At December 31, 2015 and 2014, 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 changing interest rate environment. Due to the historically low interest rate environment, the 300 and 400 basis point declining interest rate scenarios have been excluded from the table.

Change in Basis Points	December 31, 2015		December 31, 2014	
		% Change in Net Interest Income	Change in Basis Points	% Change in Net Interest Income
400		0.2%	400	(0.1%)
300		1.2%	300	1.1%
100		1.3%	100	1.4%
(100)		(1.0%)	(100)	(2.9%)



**Table of Contents****ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

## CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

	December 31,	
	2015	2014
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 23,302	\$ 24,520
Interest bearing deposits with other banks	3,959	3,408
Total cash and cash equivalents	27,261	27,928
Interest bearing time deposits with other banks	0	225
Securities available for sale	546,043	685,720
Trading securities	4,576	4,505
Loans held for sale	1,381	887
Loans	1,582,354	1,359,596
Less: unearned discount	(4,556)	(4,307)
Less: allowance for loan losses	(16,737)	(17,373)
Net loans	1,561,061	1,337,916
FHLB and other equity interests	15,921	6,695
Premises and equipment, net	39,370	35,378
Bank owned life insurance	41,039	39,845
Mortgage servicing rights	962	856
Goodwill	27,194	27,194
Core deposit intangible	2,395	3,403
Accrued interest receivable and other assets	17,933	18,661
Total Assets	\$ 2,285,136	\$ 2,189,213
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Non-interest bearing deposits	\$ 263,639	\$ 244,743
Interest bearing deposits	1,551,414	1,602,336
Total deposits	1,815,053	1,847,079
Short-term borrowings	116,272	35,980
FHLB and other long-term borrowings	104,243	75,715
Subordinated debentures	20,620	20,620
Accrued interest payable and other liabilities	27,035	21,271
Total liabilities	2,083,223	2,000,665
Commitments and contingent liabilities	0	0
Common stock, \$0 par value; authorized 50,000,000 shares; issued 14,473,482 shares	0	0
Additional paid in capital	77,827	78,022
Retained earnings	123,301	110,619

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Treasury stock, at cost (65,052 shares for 2015 and 69,066 for 2014)	(1,114)	(1,152)
Accumulated other comprehensive income	1,899	1,059
Total shareholders' equity	201,913	188,548
Total Liabilities and Shareholders' Equity	\$ 2,285,136	\$ 2,189,213

See Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Dollars in thousands, except per share data

	Year ended December 31,		
	2015	2014	2013
<b>Interest and Dividend Income:</b>			
Loans including fees	\$ 71,814	\$ 69,512	\$ 53,927
<b>Securities:</b>			
Taxable	10,977	13,257	13,456
Tax-exempt	3,778	3,713	3,828
Dividends	609	400	205
<b>Total interest and dividend income</b>	<b>87,178</b>	<b>86,882</b>	<b>71,416</b>
<b>Interest Expense:</b>			
Deposits	8,498	8,300	7,995
Borrowed funds	3,222	3,241	3,447
Subordinated debentures (includes \$378, \$384, and \$400 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2015, 2014, and 2013)	751	746	770
<b>Total interest expense</b>	<b>12,471</b>	<b>12,287</b>	<b>12,212</b>
<b>Net Interest Income</b>	<b>74,707</b>	<b>74,595</b>	<b>59,204</b>
Provision for Loan Losses	2,560	3,840	6,138
<b>Net Interest Income After Provision for Loan Losses</b>	<b>72,147</b>	<b>70,755</b>	<b>53,066</b>
<b>Non-Interest Income:</b>			
Wealth and asset management fees	2,977	2,860	2,426
Service charges on deposit accounts	4,442	4,560	4,272
Other service charges and fees	3,089	2,809	2,179
Net realized gains on available-for-sale securities (includes \$666, \$429, and \$355 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2015, 2014, and 2013)	666	429	355
Net realized gains (losses) on trading securities	(211)	10	579
Net unrealized gains (losses) on trading securities	(2)	111	149
Mortgage banking	746	781	940
Bank owned life insurance	1,194	1,041	1,552
Other	1,898	1,720	1,314
<b>Total non-interest income</b>	<b>14,799</b>	<b>14,321</b>	<b>13,766</b>
<b>Non-Interest Expenses:</b>			
Salaries	21,652	19,530	15,467
Employee benefits	7,911	7,461	6,250
Net occupancy expense	7,000	6,911	5,506
Amortization of core deposit intangible	1,008	1,180	251
Data processing	4,405	3,996	3,469
State and local taxes	1,868	1,895	1,549
Legal, professional and examination fees	1,553	1,363	1,318
Advertising	1,580	1,455	939
FDIC insurance	1,278	1,322	1,266
Directors fees and benefits	812	625	776
Merger costs	308	0	2,396
Other	7,082	6,950	4,626

## Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Total non-interest expenses	56,457	52,688	43,813
<b>Income Before Income Taxes</b>	<b>30,489</b>	<b>32,388</b>	<b>23,019</b>
Income Tax Expense (includes \$101, \$16, and (\$16) income tax expense reclassification items items in 2015, 2014, and 2013)	8,292	9,314	6,340
<b>Net Income</b>	<b>22,197</b>	<b>23,074</b>	<b>16,679</b>
Other Comprehensive Income (Loss):			
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification and tax	793	10,372	(23,675)
Change in actuarial (loss) gain, for post-employment health care plan, net of amortization and tax	(90)	21	(103)
Change in fair value of interest rate swap agreements designated as a cash flow hedge, net of interest and tax	137	111	409
Total other comprehensive income (loss)	840	10,504	(23,369)
<b>Comprehensive Income (Loss)</b>	<b>\$ 23,037</b>	<b>\$ 33,578</b>	<b>\$ (6,690)</b>
Earnings Per Share:			
Basic	\$ 1.54	\$ 1.60	\$ 1.29
Diluted	1.54	1.60	1.29

See Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in thousands

	Year ended December 31,		
	2015	2014	2013
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 22,197	\$ 23,074	\$ 16,679
Adjustments to reconcile net income to net cash provided by operations:			
Provision for loan losses	2,560	3,840	6,138
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	4,039	4,127	2,641
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	993	(115)	3,541
Deferred taxes	376	733	(977)
Net realized gains on sales of available-for-sale securities	(666)	(429)	(355)
Net realized and unrealized losses (gains) on trading securities	213	(121)	(728)
Proceeds from sale of trading securities	2,129	248	5,811
Purchase of trading securities	(2,413)	(1,117)	(4,671)
Gain on sale of loans	(630)	(596)	(808)
Net losses (gains) on dispositions of premises and equipment and foreclosed assets	7	32	(252)
Proceeds from sale of loans	14,927	10,227	22,252
Origination of loans held for sale	(15,171)	(10,271)	(19,883)
Income on bank owned life insurance	(1,194)	(1,041)	(1,552)
Stock-based compensation expense	621	548	390
Contribution of treasury stock	120	120	120
Changes in:			
Accrued interest receivable and other assets	83	6,266	(3,124)
Accrued interest payable and other liabilities	5,435	(6,605)	8,387
<b>Net Cash Provided By Operating Activities</b>	<b>33,626</b>	<b>28,920</b>	<b>33,609</b>
<b>Cash Flows from Investing Activities:</b>			
Net decrease (increase) in interest bearing time deposits with other banks	225	50	(50)
Proceeds from maturities, prepayments and calls of available-for-sale securities	78,707	81,395	139,863
Proceeds from sales of available-for-sale securities	105,066	61,236	35,633
Purchase of available-for-sale securities	(45,120)	(128,591)	(130,412)
Loan origination and payments, net	(224,470)	(59,961)	(124,155)
Purchase of bank owned life insurance	0	(5,000)	(2,000)
Proceeds from death benefits associated with bank owned life insurance	0	0	1,348
Net cash acquired from FC Banc Corp.	0	0	46,982
(Purchase) redemption of FHLB and other equity interests	(9,226)	838	940
Purchase of premises and equipment	(6,751)	(6,426)	(5,336)
Proceeds from the sale of premises and equipment and foreclosed assets	855	933	735
<b>Net Cash Used In Investing Activities</b>	<b>(100,714)</b>	<b>(55,526)</b>	<b>(36,452)</b>
<b>Cash Flows From Financing Activities:</b>			
Net change in:			
Checking, money market and savings accounts	(39,285)	100,620	48,680
Certificates of deposit	7,259	(88,855)	(30,395)
Purchase of treasury stock	(868)	(1,675)	0
Proceeds from sale of treasury stock	0	38	41
Proceeds from exercise of stock options	0	549	698
Cash dividends paid	(9,515)	(9,521)	(8,573)
Proceeds from long-term borrowings	50,000	950	900
Repayments on long-term borrowings	(21,472)	(235)	(196)
Net change in short-term borrowings	80,292	23,030	(10,560)

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Net Cash Provided By Financing Activities	66,411	24,901	595
Net Decrease in Cash and Cash Equivalents	(677)	(1,705)	(2,248)
Cash and Cash Equivalents, Beginning	27,928	29,633	31,881
Cash and Cash Equivalents, Ending	\$ 27,251	\$ 27,928	\$ 29,633
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid during the period for:			
Interest	\$ 12,502	\$ 12,343	\$ 12,283
Income taxes	5,431	6,411	5,529
<b>Supplemental Noncash Disclosures:</b>			
Transfers to other real estate owned	\$ 806	\$ 678	\$ 1,151
Grant of restricted stock awards from treasury stock	803	609	539
Net liabilities assumed from FC Banc Corp., excluding cash and cash equivalents	0	0	29,669
Fair value of common stock issued in connection with acquisition of FC Banc Corp.	0	0	33,561

See Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

Dollars in thousands, except share and per share data

	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Share- holders Equity
Balance, January 1, 2013	\$ 44,223	\$ 88,960	\$ (1,743)	\$ 13,924	\$ 145,364
Net income		16,679			16,679
Other comprehensive loss				(23,369)	(23,369)
Common stock issued in acquisition (1,873,879 shares)	33,561				33,561
Restricted stock award grants (31,500 shares)	(471)		471		
Exercise of stock options (40,000 shares), including tax benefit	182		551		733
Stock based compensation expense	390				390
Reissue of treasury stock (6,497 shares)	38		88		126
Cash dividends declared (\$0.66 per share)		(8,573)			(8,573)
Balance, December 31, 2013	77,923	97,066	(633)	(9,445)	164,911
Net income		23,074			23,074
Other comprehensive income				10,504	10,504
Restricted stock award grants (35,400 shares)	(497)		497		
Exercise of stock options (34,250 shares), including tax benefit	7		566		573
Stock based compensation expense	548				548
Purchase of treasury stock (100,000 shares)			(1,675)		(1,675)
Reissue of treasury stock (6,986 shares)	41		93		134
Cash dividends declared (\$0.66 per share)		(9,521)			(9,521)
Balance, December 31, 2014	78,022	110,619	(1,152)	1,059	188,548
Net income		22,197			22,197
Other comprehensive income				840	840
Restricted stock award grants (48,300 shares)	(803)		803		
Stock based compensation expense	621				621
Purchase of treasury stock (51,052 shares)			(868)		(868)
Reissue of treasury stock (6,766 shares)	(13)		103		90
Cash dividends declared (\$0.66 per share)		(9,515)			(9,515)
Balance, December 31, 2015	\$ 77,827	\$ 123,301	\$ (1,114)	\$ 1,899	\$ 201,913

See Notes to Consolidated Financial Statements

**Table of Contents**

**Notes to Consolidated Financial Statements**

(Dollars in thousands, except per share data)

**1. Summary of Significant Accounting Policies**

Unless otherwise indicated, dollar amounts are in thousands, except per share data.

**Business and Organization**

CNB Financial Corporation (the Corporation) is headquartered in Clearfield, Pennsylvania, and provides a full range of banking and related services through its wholly owned subsidiary, CNB Bank (the Bank). In addition, the Bank provides trust and asset management services, including the administration of trusts and estates, retirement plans, and other employee benefit plans as well as a full range of wealth management services. The Bank serves individual and corporate customers and is subject to competition from other financial institutions and intermediaries with respect to these services. In addition to the Bank, the Corporation also operates a consumer discount loan and finance business through its wholly owned subsidiary, Holiday Financial Services Corporation (Holiday). The Corporation and these and its other subsidiaries are subject to examination by federal and state regulators. The Corporation's market area is primarily concentrated in the central and northwest regions of the Commonwealth of Pennsylvania and in the central region of the state of Ohio.

**Basis of Financial Presentation**

The financial statements are consolidated to include the accounts of the Corporation and the Bank, CNB Securities Corporation, Holiday, and CNB Insurance Agency. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain prior period amounts have been reclassified to conform to the current period presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

**Use of Estimates**

To prepare financial statements in conformity with accounting principles generally accepted in the U.S., management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

**Operating Segments**

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Corporation-wide basis, and operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

**Interest Bearing Time Deposits with Other Banks**

Interest-bearing time deposits in other financial institutions mature within one year and are carried at cost.



## **Table of Contents**

### **Securities**

When purchased, securities are classified as held to maturity, trading or available for sale. Debt securities are classified as held to maturity when the Corporation has the positive intent and ability to hold the securities to maturity. Held to maturity securities are carried at amortized cost. Debt or equity securities are classified as trading when purchased principally for the purpose of selling them in the near term, or when the fair value option has been elected. Trading securities are recorded at fair value with changes in fair value included in earnings in non-interest income. Available for sale securities are those securities not classified as held to maturity or trading and are carried at their fair value. Unrealized gains and losses, net of deferred tax, on securities classified as available for sale are recorded as other comprehensive income. Management has not classified any debt securities as held to maturity.

The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for the amortization of premiums and the accretion of discounts over the period through contractual maturity or, in the case of mortgage-backed securities and collateralized mortgage obligations, over the estimated life of the security. Such amortization is included in interest income from securities. Gains and losses on securities sold are recorded on the trade date and based on the specific identification method.

Declines in the fair value of debt securities below their cost that are other than temporary and attributable to credit losses are reflected in earnings. Other-than-temporary impairment losses that are not attributable to credit losses are reported as a component of accumulated other comprehensive income. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Corporation's intent to sell, or whether it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If the Corporation intends to sell a security or it is more likely than not it will be required to sell a security before recovery of its amortized cost basis, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

### **Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on commercial, industrial, and agricultural loans, commercial mortgage loans, and residential real estate loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. Loans, including loans modified in a troubled debt restructuring, are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received on loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method,

## **Table of Contents**

until qualifying for return to accrual. For all portfolio segments, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

### **Concentration of Credit Risk**

Most of the Corporation's business activity is with customers located within the Commonwealth of Pennsylvania and the state of Ohio. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economies of Pennsylvania and Ohio.

### **Purchased Loans**

The Corporation purchased loans in connection with its acquisition of FC Banc Corp. in 2013, some of which had, at the acquisition date, shown evidence of credit deterioration since origination. These purchased credit impaired loans were recorded at the amount paid, such that there was no carryover of the seller's allowance for loan losses. Further losses on purchased credit impaired loans are recognized by an increase in the allowance for loan losses.

Such purchased credit impaired loans are accounted for individually, and the Corporation estimates the amount and timing of expected cash flows for each loan. The expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

For loans purchased that did not show evidence of credit deterioration, the difference between the fair value of the loan at the acquisition date and the loan's face value is being amortized as a yield adjustment over the estimated remaining life of the loan using the effective interest method.

### **Loans Held for Sale**

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of the mortgage loan sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

### **Allowance for Loan Losses**

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance account.

---

**Table of Contents**

Management determines the adequacy of the allowance based on historical patterns of charge-offs and recoveries, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, industry experience, economic conditions, and other qualitative factors relevant to the collectability of the loan portfolio. While management believes that the allowance is adequate to absorb probable loan losses incurred at the balance sheet date, future adjustments may be necessary due to circumstances that differ substantially from the assumptions used in evaluating the adequacy of the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent 2 years. This actual loss experience is supplemented with other factors based on the risks present for each portfolio segment. These historical loss factors include consideration of the following: 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, ability, and depth of management; national and local economic trends and conditions; and concentrations of credit.

The following portfolio segments, which are the same as the Corporation's portfolio classifications and associated risk characteristics, have been identified:

Commercial, industrial, and agricultural risk characteristics include below average economic and employment conditions in many of the markets served by the Corporation, which has limited consumer spending.

Commercial mortgages the most significant risk characteristic is the subjectivity involved in real estate valuations for properties located in areas with low growth economies.

Residential real estate risk characteristics include slightly higher than historical levels of delinquencies and less than robust housing markets.

Consumer risk characteristics include continuing weakness in industrial employment in many of the markets served by the Corporation and low wage growth.

## **Table of Contents**

Credit cards the most significant risk characteristic is the unsecured nature of credit card loans.

Overdrafts risk characteristics include the Corporation's continued deposit growth and overall economic conditions which may lead to a greater likelihood of overdrawn deposit accounts.

### **Federal Home Loan Bank (FHLB) Stock**

As a member of the Federal Home Loan Bank of Pittsburgh ( FHLB ), the Corporation is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants.

FHLB stock is held as a long-term investment, is valued at its cost basis and is analyzed for impairment based on the ultimate recoverability of the par value. The Company evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as the following:

- its operating performance;
- the severity and duration of declines in the fair value of its net assets related to its capital stock amount;
- its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;
- the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and
- its liquidity and funding position.

### **Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation of premises and equipment is computed principally by the straight line method. In general, useful lives range from 3 to 39 years with lives for furniture, fixtures and equipment ranging from 3 to 10 years and lives of buildings and building improvements ranging from 15 to 39 years. Amortization of leasehold improvements is computed using the straight-line method over useful lives of the leasehold improvements or the term of the lease, whichever is shorter. Maintenance, repairs and minor renewals are charged to expense as incurred.

### **Foreclosed Assets**

Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at the lower of cost or fair value, less estimated costs to sell. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

## **Table of Contents**

### **Bank Owned Life Insurance**

The Corporation has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

### **Goodwill and Other Intangible Assets**

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate an impairment test should be performed.

The Corporation has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives. Goodwill is the only intangible asset with an indefinite life on the Corporation's balance sheet. Other intangible assets consist of a core deposit intangible asset arising from the acquisition of FC Banc Corp. in 2013. The core deposit intangible asset is amortized using an accelerated method over its estimated useful life of 7 years.

### **Long-term Assets**

Premises and equipment, goodwill and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

### **Loan Commitments and Related Financial Instruments**

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

### **Derivatives**

Derivative financial instruments are recognized as assets or liabilities at fair value. The Corporation has interest rate swap agreements which are used as part of its asset liability management to help manage interest rate risk. The Corporation does not use derivatives for trading purposes.

At the inception of a derivative contract, the Corporation designates the derivative as one of three types based on the purpose of the contract and belief as to its effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ( fair value hedge ), (2) a hedge of a forecasted transaction or the variability of cash flows to be

## **Table of Contents**

received or paid related to a recognized asset or liability ( cash flow hedge ), or (3) an instrument with no hedging designation ( stand-alone derivative ). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions, at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

## **Advertising Costs**

Advertising costs are generally expensed as incurred and amounted to \$1,580, \$1,455, and \$939, for 2015, 2014 and 2013, respectively.

## **Mortgage Servicing Rights**

Servicing rights are recognized separately when they are acquired through sales of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the

## **Table of Contents**

custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Corporation compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with mortgage banking income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as mortgage banking income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

## **Treasury Stock**

The purchase of the Corporation's common stock is recorded at cost. Purchases of the stock are made both in the open market and through negotiated private purchases based on market prices. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on a first-in-first-out basis.

## **Stock-Based 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 up to 500,000 shares of common stock to be awarded in the form of nonqualified options or restricted stock. For key employees, the plan vesting schedule is one-fourth of granted stock-based awards per year beginning one year after the grant date with 100% vested on the fourth anniversary. For independent directors, the vesting schedule is one-third of granted stock-based awards per year beginning one year after the grant date with 100% vested on the third anniversary.

At December 31, 2015 and 2014, there was no unrecognized compensation cost related to nonvested stock options granted under this plan, and no stock options were granted during the years ended December 31, 2015, 2014 and 2013.

During 2015, 2014 and 2013, the Executive Compensation and Personnel Committee of the Board of Directors granted a total of 48,300, 35,400 and 31,500 shares, respectively, of restricted common stock to certain key employees and all independent directors of the Corporation. Compensation expense for the restricted stock awards is recognized over the requisite service period based on the fair value of the

## **Table of Contents**

shares at the date of grant on a straight-line basis. Unearned restricted stock awards are recorded as a reduction of shareholders' equity until earned. Compensation expense resulting from these restricted stock awards was \$621, \$548 and \$390 for the years ended December 31, 2015, 2014 and 2013, respectively.

## **Comprehensive Income**

The Corporation presents comprehensive income as part of the Consolidated Statement of Income and Comprehensive Income. Other comprehensive income (loss) consists of unrealized holding gains (losses) on the available for sale securities portfolio, changes in the unrecognized actuarial gain and transition obligation related to the Corporation's post retirement benefits plans, and changes in the fair value of the Corporation's interest rate swaps.

## **Income Taxes**

The Corporation files a consolidated U.S. income tax return that includes all subsidiaries. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

## **Retirement Plans**

The Corporation's expense associated with its 401(k) plan is determined under the provisions of the plan document and includes both matching and profit sharing components. Deferred compensation and supplemental retirement plan expenses allocate the benefits over years of service.

## **Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common shareholders 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. 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 non-vested stock awards are participating securities.



## **Table of Contents**

### **Cash and Cash Equivalents**

For purposes of the consolidated statement of cash flows, the Corporation defines cash and cash equivalents as cash and due from banks, interest bearing deposits with other banks, and Federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing time deposits with other banks and borrowings with original maturities of 90 days or less.

### **Restrictions on Cash**

The Bank is required to maintain average reserve balances with the Federal Reserve Bank or in vault cash. The average amount of these non-interest bearing reserve balances for the year ended December 31, 2015 and 2014, was \$50, which was maintained in vault cash. Note 12 to the consolidated financial statements discloses the cash collateral balances required to be maintained in connection with the Corporation's interest rate swaps.

### **Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

### **Fair Value of Financial Instruments**

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

### **Adoption of New Accounting Standards**

In January 2014, the FASB issued Accounting Standards Update 2014-04, *Receivables - Troubled Debt Restructurings by Creditors* (Subtopic 310-40) (ASU 2014-04). The amendments in ASU 2014-04 clarify the circumstances under which an in substance repossession or foreclosure occurs and when a creditor is considered to have received physical possession of a residential real estate property collateralizing a residential real estate loan. The amendments in ASU 2014-04 also require interim and annual disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for reporting periods beginning after December 15, 2014. The adoption of ASU 2014-04 did not have a material effect on the Corporation's financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-14, *Receivables - Troubled Debt Restructurings by Creditors* (Subtopic 310-40): *Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure*. ASU 2014-14 amended existing guidance related to the classification of certain government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA, upon foreclosure. It requires that a mortgage loan be derecognized and a separate

## **Table of Contents**

other receivable be recognized upon foreclosure if certain conditions are met. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-14 did not have a material effect on the Corporation's financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, with all other disclosure requirements required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of this guidance as of January 1, 2015 did not have an impact on the Corporation's consolidated financial statements.

## **Effect of Newly Issued But Not Yet Effective Accounting Standards**

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.

In June 2014, the FASB issued Accounting Standards Update 2014-12, Compensation—Stock Compensation (Topic 718). ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under ASU 2014-12. The guidance is effective for reporting periods beginning after December 15, 2015. The adoption of ASU 2014-12 is not expected to have a material effect on the Corporation's financial statements.

## **Table of Contents**

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

## **2. Business Combination**

In the first quarter of 2013, the Corporation announced the signing of a definitive merger agreement to acquire 100% of the outstanding equity interests of FC Banc Corp. and its subsidiary, Farmers Citizens Bank, for \$30.00 per share in cash and stock. Farmers Citizens Bank served the central Ohio markets of Bucyrus, Cardington, Fredericktown, Mount Hope and Shiloh, as well as the markets of Worthington and Upper Arlington in the greater Columbus, Ohio area, with 8 branch locations. The transaction closed on October 11, 2013 and resulted in consideration paid to FC Banc Corp. shareholders totaling approximately \$41.6 million, comprised of approximately \$8.0 million in cash and 1,873,879 shares of the Corporation's common stock valued at approximately \$33.6 million based on the October 11, 2013 closing price of \$17.91 per share. FC Banc Corp.'s results of operations were included in the Corporation's results beginning October 12, 2013.

On December 30, 2015, the Corporation announced the signing of a definitive merger agreement to acquire Lake National Bank of Mentor, Ohio for \$22.50 per share in cash, or approximately \$24.75 million in the aggregate. The transaction is expected to close in the third quarter of 2016, subject to customary closing conditions, including regulatory approvals and the approval of Lake National Bank shareholders. Following completion of the merger, Lake National Bank will operate as part of the ERIEBANK division of CNB Bank. As of December 31, 2015, Lake National Bank had total assets of \$153.0 million, total loans of \$122.3 million, and total deposits of \$134.8 million.

The Corporation's management and board of directors have periodically conducted strategic reviews as part of their ongoing efforts to improve the Corporation's banking franchise and enhance shareholder value. In connection with these strategic reviews, the Corporation has considered potential acquisition targets, including banking institutions in Ohio. On March 26, 2013, the Corporation's board of directors unanimously approved the merger transaction with FC Banc Corp. and authorized the Corporation's management to execute and deliver the merger agreement.

As disclosed in the accompanying consolidated statements of income, the Corporation incurred merger costs of \$308 during the year ended December 31, 2015 and \$2,396 during the year ended December 31, 2013. All merger costs have been expensed as incurred.

**Table of Contents**

The following table summarizes the consideration paid for FC Banc Corp. and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date:

<b>Consideration paid:</b>	
Cash	\$ 8,013
Common stock	33,561
Fair value of total consideration transferred	41,574
<b>Recognized amounts of identifiable assets acquired and liabilities assumed:</b>	
Cash and cash equivalents	54,995
Securities available for sale	34,214
Loans	247,737
FHLB and other equity interests	1,789
Premises and equipment	4,328
Bank owned life insurance	3,955
Mortgage servicing rights	83
Core deposit intangible	4,834
Accrued interest receivable and other assets	8,093
Total assets acquired	360,028
Demand deposits	248,812
Time deposits	83,214
Accrued interest payable and other liabilities	2,676
Total liabilities assumed	334,702
Total identifiable net assets	25,326
Goodwill	\$ 16,248

Included in accrued interest receivable and other assets is a deferred tax asset totaling \$5,696 representing the tax effect of temporary differences between the tax basis and fair values assigned to the assets and liabilities, as well as the effect of FC Banc Corp.'s net operating loss carryforward. See Note 13.

Acquired loans were recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of loans involved estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Loans acquired with evidence of credit quality deterioration totaled \$2,225. The Corporation acquired \$256,418 of gross loans, including purchased credit impaired loans, and recognized a net combined yield and credit mark of \$8,681.

Goodwill of \$16,248 arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the Corporation and FC Banc Corp. None of the goodwill is expected to be deductible for income tax purposes.

**Table of Contents****3. Earnings Per Share**

The computation of basic and diluted earnings per share is shown below (in thousands, except per share data). There were no anti-dilutive stock options for the years ended December 31, 2015, 2014 and 2013.

	Years Ended December 31		
	2015	2014	2013
<b>Basic earnings per common share computation</b>			
Net income per consolidated statements of income	\$ 22,197	\$ 23,074	\$ 16,679
Net earnings allocated to participating securities	(117)	(95)	(73)
Net earnings allocated to common stock	\$ 22,080	\$ 22,979	\$ 16,606
Distributed earnings allocated to common stock	\$ 9,460	\$ 9,476	\$ 8,532
Undistributed earnings allocated to common stock	12,620	13,503	8,074
Net earnings allocated to common stock	\$ 22,080	\$ 22,979	\$ 16,606
Weighted average common shares outstanding, including shares considered participating securities	14,408	14,412	12,929
Less: Average participating securities	(70)	(53)	(50)
Weighted average shares	14,338	14,359	12,879
Basic earnings per common share	\$ 1.54	\$ 1.60	\$ 1.29
<b>Diluted earnings per common share computation</b>			
Net earnings allocated to common stock	\$ 22,080	\$ 22,979	\$ 16,606
Weighted average common shares outstanding for basic earnings per common share	14,338	14,359	12,879
Add: Dilutive effects of assumed exercises of stock options	0	1	2
Weighted average shares and dilutive potential common shares	14,338	14,360	12,881
Diluted earnings per common share	\$ 1.54	\$ 1.60	\$ 1.29

**4. Securities**

Securities available-for-sale at December 31, 2015 and 2014 are as follows:

	Amortized Cost	December 31, 2015 Unrealized		Fair Value	Amortized Cost	December 31, 2014 Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
U.S. Gov t sponsored entities	\$141,300	\$1,579	\$(1,128)	\$141,751	\$155,482	\$2,301	\$(2,219)	\$155,564
State & political subdivisions	165,828	6,234	(243)	171,819	174,600	6,804	(402)	181,002
Residential & multi-family mortgage	160,316	1,060	(3,394)	157,982	265,678	2,291	(2,805)	265,164
Corporate notes & bonds	19,794	165	(1,271)	18,688	20,791	139	(1,500)	19,430

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Pooled trust preferred	800	2,613	0	3,413	800	105	0	905
Pooled SBA	51,556	760	(907)	51,409	63,139	1,074	(1,560)	62,653
Other equity securities	1,020	0	(39)	981	1,020	0	(18)	1,002
Total	\$540,614	\$12,411	\$(6,982)	\$546,043	\$681,510	\$12,714	\$(8,504)	\$685,720

**Table of Contents**

At December 31, 2015 and 2014, there were no holdings of securities by any one issuer, other than 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, and the Corporation holds one commercial mortgage security that is private label.

Trading securities at December 31, 2015 and 2014 are as follows:

	2015	2014
Corporate equity securities	\$ 3,389	\$ 3,044
Mutual Funds	750	999
Cerfificates of deposit	253	253
Corporate notes and bonds	130	155
U.S. Government sponsored entities	54	54
<b>Total</b>	<b>\$ 4,576</b>	<b>\$ 4,505</b>

Securities with unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

December 31, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Description of Securities</b>						
U.S. Gov t sponsored entities	\$ 65,675	\$ (640)	\$ 31,923	\$ (488)	\$ 97,598	\$ (1,128)
State & political subdivisions	9,103	(234)	2,478	(9)	11,581	(243)
Residential & multi-family mortgage	69,631	(1,562)	50,351	(1,832)	119,982	(3,394)
Corporate notes & bonds	5,027	(2)	8,144	(1,269)	13,171	(1,271)
Pooled SBA	2,908	(28)	27,127	(879)	30,035	(907)
Other equity securities	0	(0)	981	(39)	981	(39)
	\$ 152,344	\$ (2,466)	\$ 121,004	\$ (4,516)	\$ 273,348	\$ (6,982)

December 31, 2014	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov t sponsored entities	\$ 26,069	\$ (149)	\$ 85,016	\$ (2,070)	\$ 111,085	\$ (2,219)
State & political subdivisions	16,398	(179)	12,363	(223)	28,761	(402)
Residential and multi-family mortgage	70,360	(603)	99,397	(2,202)	169,757	(2,805)
Corporate notes & bonds	5,008	(30)	7,935	(1,470)	12,943	(1,500)
Pooled SBA	0	(0)	34,608	(1,560)	34,608	(1,560)
Other equity securities	0	(0)	1,002	(18)	1,002	(18)
	\$ 117,835	\$ (961)	\$ 240,321	\$ (7,543)	\$ 358,156	\$ (8,504)

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.





**Table of Contents**

The following table provides detailed information related to the Corporation's structured pooled trust preferred securities as of December 31, 2015 and for the years ended December 31, 2015, 2014, and 2013:

	As of December 31, 2015			Credit Losses Realized in Earnings		
	Adjusted Amortized Cost	Unrealized Gain (Loss)	Fair Value	Year Ended December 31,		
				2015	2014	2013
ALESCO Preferred Funding V, Ltd.	\$ 800	\$ 370	\$ 1,170	\$ 0	\$ 0	\$ 0
ALESCO Preferred Funding XII, Ltd.	0	1,021	1,021	0	0	0
ALESCO Preferred Funding XVII, Ltd.	0	588	588	0	0	0
Preferred Term Securities XVI, Ltd.	0	634	634	0	0	0
US Capital Funding VI, Ltd.	0	0	0	0	0	0
Total	\$ 800	\$ 2,613	\$ 3,413	\$ 0	\$ 0	\$ 0

At December 31, 2015, the Corporation evaluated the pooled trust preferred securities for other than-temporary impairment by estimating the cash flows expected to be received, taking into account future estimated levels of deferrals and defaults by the underlying issuers and discounting those cash flows at the appropriate accounting yield.

A roll-forward of the other-than-temporary impairment amount related to credit losses for the years ended December 31, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, beginning of period	\$ 4,054	\$ 4,054	\$ 4,054
Additional credit loss for which other-than-temporary impairment was not previously recognized	0	0	0
Additional credit loss for which other-than-temporary impairment was previously recognized	0	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	\$ 4,054	\$ 4,054	\$ 4,054

The adjusted amortized cost of structured pooled trust preferred securities as of December 31, 2015 and 2014, 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 given the following considerations. When reviewing securities for other-than-temporary impairment, management considers the financial condition and near-term prospects of the issuer and whether downgrades by bond rating agencies have occurred. Management also considers the length of time and extent to which

**Table of Contents**

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 December 31, 2015 and 2014, 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.

On December 31, 2015 and 2014, securities carried at \$312,669 and \$325,799, respectively, were pledged to secure public deposits and for other purposes as provided by law.

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at December 31, 2015:

	December 31, 2015	
	Amortized Cost	Fair Value
1 year or less	\$ 21,183	\$ 21,393
1 year 5 years	192,677	197,124
5 years 10 years	87,654	88,913
After 10 years	26,208	28,241
	327,722	335,671
Residential and multi-family mortgage	160,316	157,982
Pooled SBA	51,556	51,409
Total debt securities	\$ 539,594	545,062

Mortgage 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.

Information pertaining to security sales is as follows:

Year ended December 31	Proceeds	Gross Gains	Gross Losses
2015	\$ 105,066	\$ 1,032	\$ 366
2014	61,236	606	177
2013	35,633	849	494

The tax provision related to these net realized gains was \$233, \$150, and \$124, respectively.

During 2015, 2014 and 2013, the Corporation sold trading securities. Proceeds were \$2,129 in 2015, \$248 in 2014, and \$5,811 in 2013, resulting in net (losses) gains of (\$211) in 2015, \$10 in 2014, and \$579 in 2013.

**Table of Contents****5. Loans**

Total net loans at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Commercial, industrial, and agricultural	\$ 475,364	\$ 428,458
Commercial mortgages	448,179	352,752
Residential real estate	574,225	502,317
Consumer	78,345	69,648
Credit cards	5,201	5,233
Overdrafts	1,040	1,188
Less: unearned discount	(4,556)	(4,307)
allowance for loan losses	(16,737)	(17,373)
<b>Loans, net</b>	<b>\$ 1,561,061</b>	<b>\$ 1,337,916</b>

At December 31, 2015 and 2014 net unamortized loan (fees) costs of \$(636) and \$483, respectively, have been included in the carrying value of loans.

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

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

Commercial, industrial, and agricultural loans comprised 30% and 32% of the Corporation's total loan portfolio at December 31, 2015 and 2014, respectively. Commercial mortgage loans comprised 28% and 26% of the Corporation's total loan portfolio at December 31, 2015 and 2014, 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 36% and 37% of the Corporation's total loan portfolio at December 31, 2015 and 2014, respectively. The loan-to-value policy guidelines for residential real estate loans vary depending on the collateral position and the specific type of loan. Higher loan-to-value terms may be approved with the appropriate private mortgage insurance coverage. The Corporation also originates and prices loans for sale into the secondary market through Freddie Mac. Loans 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

**Table of Contents**

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 December 31, 2015 and 2014. Terms and collateral requirements vary depending on the size and nature of the loan.

During 2014, management reviewed its loan portfolio segments resulting in the reclassification of approximately \$136 million into Commercial, Industrial and Agricultural. \$124 million was reclassified out of Commercial Mortgages and \$12 million was reclassified out of Residential Real Estate. Accordingly, the December 31, 2013 loan portfolio segment balances and the related allowance for loan loss segments were reclassified to conform to the December 31, 2014 presentation. To roll forward the allowance for loan losses by segments for the year ended 2013, the net effect of this reclassification was adjusted through provisions for loan losses. The effect of this reclassification was not considered material to the overall allowance for loan losses, did not change total loan balances, and is not considered material to the consolidated financial statements taken as a whole.

Transactions in the allowance for loan losses for the year ended December 31, 2015 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2015	\$ 7,114	\$ 5,310	\$ 2,479	\$ 2,205	\$ 71	\$ 194	\$ 17,373
Charge-offs	(307)	(486)	(632)	(1,956)	(116)	(221)	(3,718)
Recoveries	267	52	8	96	14	85	522
Provision for loan losses	(1,039)	729	620	2,026	121	103	2,560
Allowance for loan losses, December 31, 2015	\$ 6,035	\$ 5,605	\$ 2,475	\$ 2,371	\$ 90	\$ 161	\$ 16,737

**Table of Contents**

Transactions in the allowance for loan losses for the year ended December 31, 2014 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2014	\$ 8,212	\$ 3,536	\$ 2,450	\$ 1,763	\$ 66	\$ 207	\$ 16,234
Charge-offs	(618)	(50)	(436)	(1,744)	(78)	(256)	(3,182)
Recoveries	1	210	41	93	25	111	481
Provision for loan losses	(481)	1,614	424	2,093	58	132	3,840
Allowance for loan losses, December 31, 2014	\$ 7,114	\$ 5,310	\$ 2,479	\$ 2,205	\$ 71	\$ 194	\$ 17,373

Transactions in the allowance for loan losses for the year ended December 31, 2013 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2013	\$ 4,940	\$ 4,697	\$ 2,466	\$ 1,699	\$ 83	\$ 175	\$ 14,060
Charge-offs	(958)	(1,931)	(467)	(1,919)	(97)	(258)	(5,630)
Recoveries	7	1,430	5	114	16	94	1,666
Provision for loan losses	4,223	(660)	446	1,869	64	196	6,138
Allowance for loan losses, December 31, 2013	\$ 8,212	\$ 3,536	\$ 2,450	\$ 1,763	\$ 66	\$ 207	\$ 16,234

**Table of Contents**

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 December 31, 2015 and 2014. The recorded investment in loans excludes accrued interest and unearned discounts due to their insignificance.

<b>December 31, 2015</b>	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
<b>Allowance for loan losses:</b>							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ 239	\$ 0	\$ 39	\$ 0	\$ 0	\$ 0	\$ 278
Collectively evaluated for impairment	4,909	3,580	2,436	2,371	90	161	13,547
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	887	2,025	0	0	0	0	2,912
<b>Total ending allowance balance</b>	<b>\$ 6,035</b>	<b>\$ 5,605</b>	<b>\$ 2,475</b>	<b>\$ 2,371</b>	<b>\$ 90</b>	<b>\$ 161</b>	<b>\$ 16,737</b>

## Loans:

Individually evaluated for impairment	\$ 1,196	\$ 393	\$ 248	\$ 0	\$ 0	\$ 0	\$ 1,837
Collectively evaluated for impairment	469,128	437,200	573,977	78,345	5,201	1,040	1,564,891
Acquired with deteriorated credit quality	0	685	0	0	0	0	685
Modified in a troubled debt restructuring	5,040	9,901	0	0	0	0	14,941
<b>Total ending loans balance</b>	<b>\$ 475,364</b>	<b>\$ 448,179</b>	<b>\$ 574,225</b>	<b>\$ 78,345</b>	<b>\$ 5,201</b>	<b>\$ 1,040</b>	<b>\$ 1,582,354</b>

**December 31, 2014**

<b>December 31, 2014</b>	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
<b>Allowance for loan losses:</b>							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ 254	\$ 294	\$ 197	\$ 0	\$ 0	\$ 0	\$ 745
Collectively evaluated for impairment	6,703	2,503	2,282	2,205	71	194	13,958
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	157	2,513	0	0	0	0	2,670
<b>Total ending allowance balance</b>	<b>\$ 7,114</b>	<b>\$ 5,310</b>	<b>\$ 2,479</b>	<b>\$ 2,205</b>	<b>\$ 71</b>	<b>\$ 194</b>	<b>\$ 17,373</b>

## Loans:

Individually evaluated for impairment	\$ 3,394	\$ 494	\$ 657	\$ 0	\$ 0	\$ 0	\$ 4,545
Collectively evaluated for impairment	421,144	336,801	501,660	69,648	5,233	1,188	1,335,674
Acquired with deteriorated credit quality	0	719	0	0	0	0	719
Modified in a troubled debt restructuring	3,920	14,738	0	0	0	0	18,658
<b>Total ending loans balance</b>	<b>\$ 428,458</b>	<b>\$ 352,752</b>	<b>\$ 502,317</b>	<b>\$ 69,648</b>	<b>\$ 5,233</b>	<b>\$ 1,188</b>	<b>\$ 1,359,596</b>

**Table of Contents**

The following tables present information related to loans individually evaluated for impairment, including loans modified in troubled debt restructurings, by portfolio segment as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014, and 2013:

	December 31, 2015		Allowance for Loan Losses Allocated
	Unpaid Principal	Recorded	
	Balance	Investment	
With an allowance recorded:			
Commercial, industrial, and agricultural	\$ 3,448	\$ 3,448	\$ 1,126
Commercial mortgage	5,985	5,343	2,025
Residential real estate	351	248	39
With no related allowance recorded:			
Commercial, industrial, and agricultural	3,716	2,788	0
Commercial mortgage	5,001	4,951	0
Residential real estate	0	0	0
Total	\$ 18,501	\$ 16,778	\$ 3,190

	December 31, 2014		Allowance for Loan Losses Allocated
	Unpaid Principal	Recorded	
	Balance	Investment	
With an allowance recorded:			
Commercial, industrial, and agricultural	\$ 5,737	\$ 5,737	\$ 411
Commercial mortgage	10,651	10,212	2,807
Residential real estate	400	400	197
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,530	1,577	0
Commercial mortgage	5,020	5,020	0
Residential real estate	319	257	0
Total	\$ 24,657	\$ 23,203	\$ 3,415

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

	Year Ended		
	December 31, 2015		
	Average	Interest	Cash Basis
	Recorded	Income	Interest
	Investment	Recognized	Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	\$ 5,667	\$ 44	\$ 44

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Commercial mortgage	8,154	0	0
Residential real estate	370	21	21
With no related allowance recorded:			
Commercial, industrial, and agricultural	1,831	14	14
Commercial mortgage	4,806	0	0
Residential real estate	103	6	6
Total	\$ 20,931	\$ 85	\$ 85



**Table of Contents**

	Year Ended		
	Average	December 31, 2014	Cash Basis
	Recorded	Interest	Interest
	Investment	Recognized	Recognized
<b>With an allowance recorded:</b>			
Commercial, industrial, and agricultural	\$ 4,621	\$ 73	\$ 73
Commercial mortgage	6,374	85	85
Residential real estate	240	46	46
<b>With no related allowance recorded:</b>			
Commercial, industrial, and agricultural	1,972	31	31
Commercial mortgage	5,868	78	78
Residential real estate	82	16	16
<b>Total</b>	<b>\$ 19,157</b>	<b>\$ 329</b>	<b>\$ 329</b>

	Year Ended		
	Average	December 31, 2013	Cash Basis
	Recorded	Interest	Interest
	Investment	Recognized	Recognized
<b>With an allowance recorded:</b>			
Commercial, industrial, and agricultural	\$ 1,989	\$ 7	\$ 7
Commercial mortgage	6,572	3	3
Residential real estate	101	7	7
<b>With no related allowance recorded:</b>			
Commercial, industrial, and agricultural	2,124	0	0
Commercial mortgage	11,885	0	0
Residential real estate	86	0	0
<b>Total</b>	<b>\$ 22,757</b>	<b>\$ 17</b>	<b>\$ 17</b>

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual by class of loans as of December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Nonaccrual	Past Due Over 90 Days Still on Accrual	Nonaccrual	Past Due Over 90 Days Still on Accrual
Commercial, industrial, and agricultural	\$ 3,560	\$ 3	\$ 796	\$ 0
Commercial mortgages	3,651	0	4,323	0
Residential real estate	3,671	87	3,026	213
Consumer	1,277	15	1,045	0
Credit cards	0	0	0	0

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Total	\$ 12,159	\$ 105	\$ 9,190	\$ 213
-------	-----------	--------	----------	--------

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.

**Table of Contents**

The following table presents the aging of the recorded investment in past due loans as of December 31, 2015 and 2014 by class of loans.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
<b>December 31, 2015</b>						
Commercial, industrial, and agricultural	\$ 131	\$ 622	\$ 698	\$ 1,451	\$ 473,913	\$ 475,364
Commercial mortgages	7	343	3,651	4,001	444,178	448,179
Residential real estate	2,834	378	3,001	6,213	568,012	574,225
Consumer	216	179	1,292	1,687	76,658	78,345
Credit cards	0	0	0	0	5,201	5,201
Overdrafts	0	0	0	0	1,040	1,040
<b>Total</b>	<b>\$ 3,188</b>	<b>\$ 1,522</b>	<b>\$ 8,642</b>	<b>\$ 13,352</b>	<b>\$ 1,569,002</b>	<b>\$ 1,582,354</b>

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
<b>December 31, 2014</b>						
Commercial, industrial, and agricultural	\$ 888	\$ 588	\$ 294	\$ 1,770	\$ 426,688	\$ 428,458
Commercial mortgages	20	1,351	4,323	5,694	347,058	352,752
Residential real estate	2,719	1,191	3,239	7,149	495,168	502,317
Consumer	265	122	1,045	1,432	68,216	69,648
Credit cards	0	83	0	83	5,150	5,233
Overdrafts	0	0	0	0	1,188	1,188
<b>Total</b>	<b>\$ 5,083</b>	<b>\$ 2,144</b>	<b>\$ 8,901</b>	<b>\$ 16,128</b>	<b>\$ 1,343,468</b>	<b>\$ 1,359,596</b>

**Troubled Debt Restructurings**

During the years ended December 31, 2015 and 2014, the terms of certain loans were 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 December 31, 2015 and December 31, 2014.

	December 31, 2015			December 31, 2014		
	Number of Loans	Loan Balance	Specific Reserve	Number of Loans	Loan Balance	Specific Reserve
Commercial, industrial, and agricultural	8	\$ 5,040	\$ 887	7	\$ 4,076	\$ 179
Commercial mortgages	8	9,901	2,025	9	14,582	2,491
Residential real estate	0	0	0	0	0	0
Consumer	0	0	0	0	0	0
Credit cards	0	0	0	0	0	0
<b>Total</b>	<b>16</b>	<b>\$ 14,941</b>	<b>\$ 2,912</b>	<b>16</b>	<b>\$ 18,658</b>	<b>\$ 2,670</b>

**Table of Contents**

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2015, 2014 and 2013:

	Number of Loans	Year Ended December 31, 2015	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, industrial, and agricultural	1	\$ 1,327	\$ 1,327
Commercial mortgages	0	0	0
Residential real estate	0	0	0
Consumer	0	0	0
Credit cards	0	0	0
<b>Total</b>	<b>1</b>	<b>\$ 1,327</b>	<b>\$ 1,327</b>

	Number of Loans	Year Ended December 31, 2014	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, industrial, and agricultural	1	\$ 2,315	\$ 2,315
Commercial mortgages	3	4,879	4,879
Residential real estate	0	0	0
Consumer	0	0	0
Credit cards	0	0	0
<b>Total</b>	<b>4</b>	<b>\$ 7,194</b>	<b>\$ 7,194</b>

	Number of Loans	Year Ended December 31, 2013	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, industrial, and agricultural	1	\$ 132	\$ 132
Commercial mortgages	2	3,615	3,549
Residential real estate	0	0	0
Consumer	0	0	0
Credit cards	0	0	0
<b>Total</b>	<b>3</b>	<b>\$ 3,747</b>	<b>\$ 3,681</b>

The troubled debt restructurings described above increased the allowance for loan losses by \$0 and \$319 during the years ended December 31, 2015 and 2014, respectively.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 4-15 years. Modifications involving an extension of the maturity date were for periods ranging from 4-18 years.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. Except as discussed below, all loans modified in troubled debt restructurings are performing in accordance with their modified terms as of December 31, 2015 and 2014 and no principal balances were forgiven in connection with the loan restructurings.

## Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

During the year ended December 31, 2015 one impaired commercial industrial loan having a balance of \$1,327 was modified in troubled debt restructurings. The Corporation did not record any additional provision for loan losses for this loan during the year ended December 31, 2015.

---

## **Table of Contents**

During the year ended December 31, 2014, three impaired commercial mortgage loans having combined balances of \$4,879 were modified in troubled debt restructurings. The Corporation recorded additional provision for loan losses of \$271 for these loans during the year ended December 31, 2014. In addition, an impaired commercial industrial loan having a balance of \$2,315 was modified in a troubled debt restructuring. The Corporation recorded an additional provision for loan losses of \$48 for this loan during the year ended December 31, 2014.

During the year ended December 31, 2013, the Corporation recorded a partial charge-off of \$974 for a commercial mortgage loan with a balance of \$1,660 that had defaulted under its restructured terms in 2012 and was placed on nonaccrual status. The Corporation recorded an additional provision for loan losses of \$262 on this loan during the year ended December 31, 2013. A commercial mortgage loan with a balance of \$1,086 defaulted under its restructured terms in 2013 and was placed on nonaccrual status. The Corporation recorded an additional provision for loan losses of \$615 during the year ended December 31, 2013. In addition, an impaired commercial mortgage loan that was placed on non-accrual status in 2013 and having a balance of \$3,269 was modified in a troubled debt restructuring. The Corporation recorded an additional provision for loan losses of \$514 for this loan during the year ended December 31, 2013.

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

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

## **Credit Quality Indicators**

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

The Corporation uses the following definitions for risk ratings:

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

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

**Table of Contents**

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.

	Pass	Special Mention	Substandard	Doubtful	Total
<b>December 31, 2015</b>					
Commercial, industrial, and agricultural	\$ 447,449	\$ 4,749	\$ 22,943	\$ 223	\$ 475,364
Commercial mortgages	426,870	1,735	19,148	426	448,179
<b>Total</b>	<b>\$ 874,319</b>	<b>\$ 6,484</b>	<b>\$ 42,091</b>	<b>\$ 649</b>	<b>\$ 923,543</b>

	Pass	Special Mention	Substandard	Doubtful	Total
<b>December 31, 2014</b>					
Commercial, industrial, and agricultural	\$ 402,923	\$ 6,703	\$ 18,525	\$ 307	\$ 428,458
Commercial mortgages	328,614	0	23,699	439	352,752
<b>Total</b>	<b>\$ 731,537</b>	<b>\$ 6,703</b>	<b>\$ 42,224</b>	<b>\$ 746</b>	<b>\$ 781,210</b>

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 December 31, 2015 and December 31, 2014:

	December 31, 2015			December 31, 2014		
	Residential Real Estate	Consumer	Credit Cards	Residential Real Estate	Consumer	Credit Cards
Performing	\$ 570,467	\$ 77,053	\$ 5,201	\$ 499,078	\$ 68,603	\$ 5,233
Non-performing	3,758	1,292	0	3,239	1,045	0
<b>Total</b>	<b>\$ 574,225</b>	<b>\$ 78,345</b>	<b>\$ 5,201</b>	<b>\$ 502,317</b>	<b>\$ 69,648</b>	<b>\$ 5,233</b>

The Corporation's portfolio of residential real estate and consumer loans maintained within Holiday Financial Services Corporation (Holiday), 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, are considered to be subprime loans.

Holiday's loan portfolio, included in consumer and residential loans above, is summarized as follows at December 31, 2015 and 2014:

	2015	2014
Consumer	\$ 30,001	\$ 27,916
Residential real estate	1,263	1,270
Less: unearned discount	(4,556)	(4,307)
<b>Total</b>	<b>\$ 26,708</b>	<b>\$ 24,879</b>





**Table of Contents****6. Secondary Market Mortgage Activities**

The following summarizes secondary market mortgage activities for the years ended December 31, 2015, 2014, and 2013:

	2015	2014	2013
Loans originated for resale, net of principal pay downs	\$ 15,171	\$ 10,271	\$ 19,883
Proceeds from sales of loans held for sale	14,927	10,227	22,252
Net gains on sales of loans held for sale	630	596	808
Loan servicing fees	390	473	375

Total loans serviced for others were \$107,165, \$112,002, and \$114,428 at December 31, 2015, 2014, and 2013, respectively.

The following summarizes activity for capitalized mortgage servicing rights for the years ended December 31, 2015, 2014, and 2013:

	2015	2014	2013
Balance, beginning of year	\$ 856	\$ 904	\$ 714
Additions	380	240	350
Servicing rights acquired	0	0	83
Amortization	(274)	(288)	(243)
Balance, end of year	\$ 962	\$ 856	\$ 904

The fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The fair value of mortgage servicing rights was \$964, \$896, and \$915 at December 31, 2015, 2014, and 2013, respectively. No valuation allowance is deemed necessary at December 31, 2015, 2014, or 2013. The fair value of interest rate lock commitments and forward commitments to sell loans was not material at December 31, 2015 or 2014.

**7. Premises and Equipment**

The following summarizes premises and equipment at December 31, 2015 and 2014:

	2015	2014
Land	\$ 4,726	\$ 4,726
Premises and leasehold improvements	37,673	35,839
Furniture and equipment	25,517	24,137
Construction in process	7,017	3,506
	74,933	68,208
Less: accumulated depreciation	35,563	32,830
Premises and equipment, net	\$ 39,370	\$ 35,378

**Table of Contents**

Depreciation on premises and equipment amounted to \$2,756 in 2015, \$2,659 in 2014, and \$2,147 in 2013.

In 2015, the Corporation entered into a contractual commitment to construct a branch facility in Worthington, Ohio at a cost of \$5,948. Construction has commenced with \$2,006 of construction in process as of December 31, 2015. The project is expected to be completed by the end of the fourth quarter of 2016.

In 2014, the Corporation entered into a contractual commitment to remodel its main office facility in Clearfield, Pennsylvania at a cost of \$9,935. Construction in the amount of \$5,658 has been completed, and \$4,277 was in process as of December 31, 2015. The project is expected to be completed by the end of the first quarter of 2016.

The Corporation is committed under nineteen noncancelable operating leases for facilities and thirteen noncancelable operating leases for vehicles with initial or remaining terms in excess of one year. The minimum annual rental commitments under these leases at December 31, 2015 are as follows:

2016	\$	907
2017		692
2018		440
2019		356
2020		237
Thereafter		1,967
	\$	4,599

Rental expense, net of rental income, charged to occupancy expense for 2015, 2014, and 2013 was \$699, \$736, and \$490, respectively.

In December 2009, the Corporation entered into a sale-leaseback transaction for real estate used in the operations of one of its branch office locations. The lease term is seventeen years, with two automatic renewal terms of five years each. The Corporation sold the property for \$1,200 but financed the entire sales amount. Because the buyer/lessor did not make an initial investment on the purchase of the real estate that is adequate to transfer the risks and rewards of ownership, the Corporation deferred the entire gain of \$489 associated with this transaction, which is included in accrued interest payable and other liabilities in the accompanying consolidated balance sheet. The gain is being recognized over the term of the loan under the installment method, and the gain recognized was included in other income in the accompanying consolidated statements of income and comprehensive income and totaled \$22, \$19, and \$17 in 2015, 2014, and 2013, respectively.

The minimum annual rental commitments under this sale-leaseback transaction at December 31, 2015 are as follows:

2016	\$	105
2017		105
2018		105
2019		105
2020		105
Thereafter		630
	\$	1,155

**Table of Contents****8. Foreclosed Assets**

Foreclosed real estate is reported net of a valuation allowance and included in accrued interest receivable and other assets in the accompanying consolidated balance sheets. Activity for the years ended December 31, 2015, 2014, and 2013 is as follows:

	2015	2014	2013
Balance, beginning of year	\$ 806	\$ 986	\$ 325
Additions	806	678	1,151
Sales (at carrying value)	(958)	(858)	(490)
Balance, end of year	\$ 654	\$ 806	\$ 986

Expenses related to foreclosed real estate include:

	2015	2014	2013
Net loss (gain) on sale	\$ 3	\$ (71)	\$ (252)
Operating expenses, net of rental income	169	254	81
	\$ 172	\$ 183	\$ (171)

**9. Goodwill and Intangible Assets****Goodwill**

The change in the carrying amount of goodwill for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Balance, beginning of year	\$ 27,194	\$ 27,194
Acquired during the year	0	0
Balance, end of year	\$ 27,194	\$ 27,194

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test. Step 1 includes the determination of the carrying value of our single reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. We determined the fair value of our reporting unit exceeded its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, we are required to perform a second step to the impairment test. Our annual impairment analysis at December 31, 2015 and 2014 indicated that the Step 2 analysis was not necessary.

**Intangible Assets**

In connection with its acquisition of FC Banc Corp. in 2013, the Corporation recorded a core deposit intangible asset of \$4,834. During the years ended December 31, 2015 and 2014, the Corporation recorded amortization expense of \$1,008 and \$1,180, respectively, resulting in a net carrying value of



**Table of Contents**

\$2,395 at December 31, 2015 and \$3,403 at December 31, 2014. No other intangible assets were required to be recorded in connection with the acquisition.

Estimated amortization expense for each of the next five years is as follows:

2016	834
2017	662
2018	489
2019	316
2020	94

**10. Deposits**

The following table reflects time certificates of deposit accounts included in total deposits and their remaining maturities at December 31, 2015:

Time deposits maturing:	
2016	\$ 50,792
2017	75,658
2018	29,848
2019	13,222
2020	7,271
Thereafter	7,374
	\$ 184,165

Certificates of deposit of \$250 thousand or more totaled \$20,180 and \$31,400 at December 31, 2015 and 2014, respectively.

**11. Borrowings**

At December 31, 2015 and 2014, the Corporation had available one \$10 million line of credit with an unaffiliated institution, at a variable interest rate with a floor as defined in the agreement. There were no borrowings on the line of credit at December 31, 2015 and 2014.

**Table of Contents****FHLB Borrowings**

At December 31, 2015, the Bank had remaining borrowing capacity with the FHLB of \$392,986. At December 31, 2015, borrowings with the FHLB are secured by a pledge of selected securities in the amount of \$20,619 and certain loans with a balance of \$802,174 at December 31, 2015. Borrowings from the FHLB at December 31, 2015 and 2014 are as follows:

Interest Rate	Maturity	2015	2014
(a)	09/07/15	\$ 0	\$ 20,000
(b)	05/02/16	116,272	35,980
(c)	06/01/17	10,000	10,000
(d)	08/07/17	5,000	5,000
(e)	08/07/17	5,000	5,000
(f)	08/07/17	10,000	10,000
(g)	10/10/17	10,000	10,000
(h)	12/15/17	30,000	0
(i)	09/16/19	18,781	0
(j)	07/03/23	700	700
(k)	09/05/23	2,049	2,167
(l)	03/11/24	888	924
(m)	06/11/24	488	513
(n)	05/04/26	261	282
(o)	10/14/26	273	292
(p)	02/11/33	803	837
		\$ 210,515	\$ 101,695

- (a) Fixed rate borrowing at interest rate of 2.09%. Matured on September 7, 2015.
- (b) Open Repo borrowing at an interest rate of 0.43% at December 31, 2015 and 0.27% at December 31, 2014.
- (c) Interest rate was fixed at 4.60% until June 2009, since which time FHLB has had the option to convert to floating interest rate based on the 3 month LIBOR + 0.16%. The interest rate was 4.60% at December 31, 2015 and 2014.
- (d) Interest rate was fixed at 4.02% until February 2008, since which time FHLB has had the option to convert to a floating interest rate based on the 3 month LIBOR + 0.11%. The interest rate was 4.02% at December 31, 2015 and 2014.
- (e) Interest rate was fixed at 4.10% until August 2008, since which time FHLB has had the option to convert to a floating interest rate based on the 3 month LIBOR + 0.11%. The interest rate was 4.10% at December 31, 2015 and 2014.
- (f) Interest rate is fixed at 4.47% until August 2010, since which time FHLB has had the option to convert to a floating interest rate based on the 3 month LIBOR + 0.11%. The interest rate was 4.47% at December 31, 2015 and 2014.

## **Table of Contents**

- (g) Interest rate was fixed at 3.97% until October 2009, since which time FHLB has had the option to convert to a floating interest rate based on the 3 month LIBOR + 0.10%. The interest rate was 3.97% at December 31, 2015 and 2014.
- (h) Fixed rate borrowing at an interest rate of 1.25%, with monthly principal and interest payments.
- (i) Fixed rate borrowing at an interest rate of 1.35%, with monthly principal and interest payments.
- (j) Fixed rate borrowing at interest rate of 4.72%.
- (k) Fixed rate borrowing at an interest rate of 4.31%, with monthly principal and interest payments and a balloon payment due at maturity.
- (l) Fixed rate borrowing at an interest rate of 3.05%, with monthly principal and interest payments and a balloon payment due at maturity.
- (m) Fixed rate borrowing at an interest rate of 5.24%, with monthly principal and interest payments and a balloon payment due at maturity.
- (n) Fixed rate borrowing at an interest rate of 3.35%, with monthly principal and interest payments.
- (o) Fixed rate borrowing at an interest rate of 4.00%, with monthly principal and interest payments.
- (p) Fixed rate borrowing at an interest rate of 2.96%, with monthly principal and interest payments.

The terms of borrowings (a) through (g) as well as (j) are interest only payments with principal due at maturity.

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances.

## **Other Borrowings**

At December 31, 2015 and 2014, the Bank had no outstanding borrowings from unaffiliated institutions under overnight borrowing agreements.

The Bank entered into a borrowing transaction with an unaffiliated institution in March 2007. The proceeds of this borrowing were \$10,000 and, as part of this transaction, the Bank pledged certain securities which had a carrying amount of \$11,710 at December 31, 2015. The borrowing has a maturity date of March 20, 2017. The borrowing is callable by the issuer at the end of each quarter until maturity. The interest rate is fixed and was 5.25% at December 31, 2015 and 2014.

## **Subordinated Debentures**

In 2007, the Corporation issued two \$10,000 floating rate trust preferred securities as part of a pooled offering of such securities. The interest rate on each offering is determined quarterly and floats based on the 3 month LIBOR plus 1.55% and was 2.06% at December 31, 2015 and 1.79% at December 31, 2014. The Corporation issued subordinated debentures to the trusts in exchange for the proceeds of the offerings, which debentures represent the sole assets of the trusts. The subordinated debentures must be redeemed no later than 2037. The Corporation may redeem the debentures, in whole or in part, at face value at any time. The Corporation has the option to defer interest payments from time to time for a period not to exceed five consecutive years.

**Table of Contents**

Although the trusts are variable interest entities, the Corporation is not the primary beneficiary. As a result, because the trusts are not consolidated with the Corporation, the Corporation does not report the securities issued by the trusts as liabilities. Instead, the Corporation reports as liabilities the subordinated debentures issued by the Corporation and held by the trusts, since the liabilities are not eliminated in consolidation.

**Maturity Schedule of All Borrowed Funds**

The following is a schedule of maturities of all borrowed funds as of December 31, 2015:

2016	\$	136,361
2017		70,351
2018		5,335
2019		4,130
2020		308
Thereafter		24,650
Total borrowed funds		\$ 241,135

**12. Interest Rate Swaps**

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 December 31, 2015, the variable rate on the subordinated debt was 2.06% (LIBOR plus 155 basis points) and the Corporation was paying 5.57% (4.02% fixed rate plus 155 basis points).

On August 1, 2008, the Corporation executed an interest rate swap agreement with a 5 year term and an effective date of September 15, 2008 in order to hedge cash flows associated with \$10 million of a subordinated note discussed above. The Corporation's objective in using this derivative was to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involved the receipt of variable-rate amounts in exchange for fixed-rate payments from September 15, 2008 to the September 15, 2013 maturity date without exchange of the underlying notional amount.

As of December 31, 2015 and 2014, 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.



**Table of Contents**

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 December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014, and 2013:

As of December 31	Balance Sheet	Liability Derivative	Fair value		
	Location	2015	2014		
Interest rate contract	Accrued interest payable and				
	other liabilities	(\$736)	(\$946)		
<b>For the Year Ended</b>					
<b>December 31, 2015</b>	(a)	(b)	(c)	(d)	(e)
Interest rate contract	\$137	Interest expense subordinated debentures	(\$378)	Other income	\$0
<b>For the Year Ended</b>					
<b>December 31, 2014</b>					
Interest rate contract	\$111	Interest expense subordinated debentures	(\$384)	Other income	\$0
<b>For the Year Ended</b>					
<b>December 31, 2013</b>					
Interest rate contract	\$409	Interest expense subordinated debentures	(\$400)	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 \$351.

As of December 31, 2015 and 2014, a cash collateral balance of \$1,400 was maintained with the counterparty to the interest rate swaps. These balances are included in interest bearing deposits with other banks on the consolidated balance sheets.

During 2015, the Corporation 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

**Table of Contents**

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 of \$200 as of December 31, 2015. This balance is included in interest bearing deposits with other banks on the consolidated balance sheets. The Corporation does not require its customers to post cash or securities as collateral on its program of back-to-back swaps. However, certain language is included in the International Swaps and Derivatives Association agreement and loan documents where, in default situations, the Corporation is permitted to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Corporation may be required to post additional collateral to swap counterparties in the future in proportion to potential increases in unrealized loss positions.

The following table provides 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 December 31, 2015:

	3 <sup>rd</sup> party interest rate swap	Customer interest rate swap
Notional amount	\$6,751	\$6,751
Maturity date	August 1, 2025	August 1, 2025
Fixed rate	4.42%	4.42%
Variable rate	1 month LIBOR + 2.25%	1 month LIBOR + 2.25%
Fair value	\$131 (f)	(\$131) (g)

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

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

**13. Income Taxes**

The following is a summary of income tax expense for the years ended December 31, 2015, 2014, and 2013:

	2015	2014	2013
Current federal	\$ 7,777	\$ 8,471	\$ 7,189
Current state	139	110	128
Deferred - federal	376	733	(977)
Income tax expense	\$ 8,292	\$ 9,314	\$ 6,340

**Table of Contents**

The components of the net deferred tax asset as of December 31, 2015 and 2014 are as follows:

	2015	2014
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 4,799	\$ 5,076
Fair value adjustments business combination	1,661	2,466
Deferred compensation	2,443	2,238
Impaired security valuation	497	479
Net operating loss carryover	1,137	1,646
Post-retirement benefits	1,562	1,423
Unrealized loss on interest rate swap	258	331
Nonaccrual loan interest	762	598
Accrued expenses	1,072	974
Deferred fees and costs	388	40
Other	442	351
	<b>15,021</b>	<b>15,622</b>
<b>Deferred tax liabilities:</b>		
Unrealized gain on securities available for sale	1,900	1,474
Premises and equipment	1,737	1,528
Intangibles section 197	4,558	4,900
Mortgage servicing rights	337	299
Other	19	124
	<b>8,551</b>	<b>8,325</b>
<b>Net deferred tax asset</b>	<b>\$ 6,470</b>	<b>\$ 7,297</b>

During 2014, the Corporation generated net capital losses of \$36 which were unable to be utilized and expire December 31, 2019. During 2015, the Corporation generated additional net capital losses of \$222 which were unable to be utilized and expire December 31, 2020. The associated deferred tax assets of \$90 and \$13 as of December 31, 2015 and 2014, respectively, are included in other deferred tax assets. The Corporation determined that it was not required to establish a valuation allowance for deferred tax assets since management believes that the deferred tax assets are likely to be realized through a carry back to taxable income in prior years, future reversals of existing temporary differences, future net capital gains and future taxable income.

The reconciliation of income tax attributable to pre-tax income at the federal statutory tax rates to income tax expense is as follows:

	2015	%	2014	%	2013	%
Tax at statutory rate	\$ 10,671	35.0	\$ 11,336	35.0	\$ 8,057	35.0
Tax exempt income, net	(1,816)	(6.0)	(1,684)	(5.2)	(1,664)	(7.2)
Bank owned life insurance	(418)	(1.4)	(364)	(1.1)	(543)	(2.4)
Merger costs	30	0.1	0	0.0	233	1.0
Other	(175)	(0.5)	26	0.1	257	1.1
<b>Income tax expense</b>	<b>\$ 8,292</b>	<b>27.2</b>	<b>\$ 9,314</b>	<b>28.8</b>	<b>\$ 6,340</b>	<b>27.5</b>

At December 31, 2015 and 2014, the Corporation has no unrecognized tax benefits. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.



---

**Table of Contents**

The Corporation recognizes interest and/or penalties related to income tax matters as part of income tax expense. At December 31, 2015 and 2014, there were no amounts accrued for interest and/or penalties and no amounts recorded as expense for the years ending December 31, 2015, 2014 and 2013.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the Commonwealth of Pennsylvania. The Corporation is no longer subject to examination by the taxing authorities for years prior to 2012. Tax years 2012 through 2014 remain open to federal and state examination.

In connection with its acquisition of FC Banc Corp., the Corporation assumed a federal net operating loss carryforward of \$6,367, which expires in 2033. Under Section 382 of the Internal Revenue Code, the utilization of the loss carryforward in future years is limited based on the consideration paid and other factors. The annual limitation on the utilization of this loss carry forward is \$1,455. As of December 31, 2015, the balance of the net operating loss carryforward is \$3,248. Management believes that the net operating loss carryforward will be used in full before its expiration.

## **14. Employee Benefit Plans**

The Corporation sponsors a contributory defined contribution Section 401(k) plan in which substantially all employees participate. The plan permits employees to make pre-tax contributions which are matched by the Corporation at 100% for every 1% contributed up to three percent then 50% for every 1% contributed up to the next four percent in total of the employee's compensation. The Corporation's matching contribution and related expenses were \$508, \$620, and \$431 in 2015, 2014, and 2013, respectively. Profit sharing contributions to this plan, based on current year compensation, are 6 percent of total compensation plus 5.7 percent of the compensation in excess of \$119. The Corporation recognized profit sharing expense of \$868, \$1,044, and \$855 in 2015, 2014, and 2013 respectively.

The Corporation has adopted a non-qualified supplemental executive retirement plan ( SERP ) for certain executives to compensate those executive participants in the Corporation's retirement plan whose benefits are limited by compensation limitations under current tax law. The SERP is considered an unfunded plan for tax and ERISA purposes and all obligations arising under the SERP are payable from the general assets of the Corporation. At December 31, 2015 and 2014, obligations of \$4,666 and \$4,316, respectively, were included in other liabilities for this plan. Expenses related to this plan were \$608 in 2015, \$454 in 2014, and \$541 in 2013.

The Corporation has established a Survivor Benefit Plan for the benefit of outside directors. The purpose of the plan is to provide life insurance benefits to beneficiaries of the Corporation's directors who at the time of their death are participants in the plan. The plan is considered an unfunded plan for tax and ERISA purposes and all obligations arising under the plan are payable from the general assets of the Corporation. At December 31, 2015 and 2014, obligations of \$1,142 and \$987, respectively, were included in other liabilities for this plan. Expenses related to this plan were \$155 in 2015, \$55 in 2014, and \$119 in 2013.

The Corporation has an unfunded post retirement benefits plan which provides certain health care benefits for retired employees who have reached the age of 60 and retired with 30 years of service. The plan was amended in 2013 to include only employees hired prior to January 1, 2000. Benefits are provided for these retired employees and their qualifying dependents from the age of 60 through the age of 65.

**Table of Contents**

The following table sets forth the change in the benefit obligation of the plan as of and for the years ended December 31, 2015, 2014, and 2013:

	2015	2014	2013
Benefit obligation at beginning of year	\$ 2,744	\$ 2,485	\$ 2,224
Interest cost	90	102	84
Service cost	96	84	125
Actual claims	(109)	(108)	(167)
Plan amendment	0	0	(602)
Actuarial loss	245	181	821
<b>Benefit obligation at end of year</b>	<b>\$ 3,066</b>	<b>\$ 2,744</b>	<b>\$ 2,485</b>

Amounts recognized in accumulated other comprehensive income at December 31, 2015 and 2014 consist of:

	2015	2014
Net actuarial loss	\$ (1,773)	\$ (1,635)
Tax effect	620	572
	<b>\$ (1,153)</b>	<b>\$ (1,063)</b>

The accumulated benefit obligation was \$3,066 and \$2,744 at December 31, 2015 and 2014, respectively.

The following table sets forth the components of net periodic benefit cost and other amounts recognized in other comprehensive income:

	2015	2014	2013
Service cost	\$ 96	\$ 84	\$ 125
Interest cost	90	102	84
Net amortization of transition obligation and actuarial loss	173	149	61
<b>Net periodic benefit cost</b>	<b>359</b>	<b>335</b>	<b>270</b>
<b>Net loss</b>	<b>311</b>	<b>117</b>	<b>821</b>
Plan amendment	0	0	(602)
Amortization of loss	(173)	(149)	(54)
Amortization of transition obligation	0	0	(7)
<b>Total recognized in other comprehensive income</b>	<b>138</b>	<b>(32)</b>	<b>158</b>
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<b>\$ 497</b>	<b>\$ 303</b>	<b>\$ 428</b>

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$184.

The weighted average discount rate used to calculate net periodic benefit cost was 3.42% in 2015, 4.31% in 2014, and 3.88% in 2013. The weighted average rate used to calculate accrued benefit obligations was 3.67% in 2015, 3.42% in 2014, and 4.31% in 2013. The health care cost trend rate used to measure the expected costs of benefits is 5.0% for 2016 and thereafter. A one percent increase in the





**Table of Contents**

health care trend rates would result in an increase of \$300 in the benefit obligation as of December 31, 2015, and would increase the service and interest costs by \$24 in future periods. A similar one percent decrease in health care trend rates would result in a decrease of \$267 and \$21 in the benefit obligation and services and interest costs, respectively, at December 31, 2015.

**15. Deferred Compensation Plans**

Deferred compensation plans cover all directors and certain officers. Under the plans, the Corporation pays each participant, or their beneficiary, the value of the participant's account over a maximum period of 10 years, beginning with the individual's termination of service. A liability is accrued for the obligation under these plans.

A summary of changes in the deferred compensation plan liability follows:

	2015	2014	2013
Balance, beginning of year	\$ 1,087	\$ 1,100	\$ 990
Deferrals, dividends, and changes in fair value recorded as an expense	209	36	191
Deferred compensation payments	(70)	(49)	(81)
Balance, end of year	\$ 1,226	\$ 1,087	\$ 1,100

**16. Stock-Based Compensation****Stock Options**

As of December 31, 2015 and 2014, there were no outstanding stock options. There were also no unrecognized compensation costs related to nonvested stock options granted under the stock option plan.

Additional information related to the stock option plan follows:

	2015	2014	2013
Intrinsic value of options exercised	\$ 0	\$67	\$ 99
Cash received from option exercises	0	549	698

**Restricted Stock Awards**

A summary of changes in nonvested restricted stock awards follows:

	Shares	Weighted-average Grant Date Fair Value
Nonvested at January 1, 2015	68,210	\$16.82
Granted	48,300	17.00
Vested	(31,910)	16.60
Nonvested at December 31, 2015	84,600	\$17.01



## **Table of Contents**

As of December 31, 2015 and 2014, there was \$958 and \$758, respectively, of total unrecognized compensation cost related to nonvested shares granted under the restricted stock award plan. The fair value of shares vesting during 2015, 2014, and 2013 was \$530, \$518 and \$323, respectively. Compensation expense for restricted stock awards was \$621 in 2015, \$548 in 2014, and \$390 in 2013.

The number of authorized stock-based awards still available for grant as of December 31, 2015 was 309,741.

## **17. Related Party Transactions**

In the ordinary course of business, the Bank has transactions, including loans, with its officers, directors, and their affiliated companies. The aggregate of such loans totaled \$6,444 on December 31, 2015 compared to \$2,570 on December 31, 2014. During 2015, \$1,755 new loans were made, \$3,278 was added due to a change in the composition of related parties, and repayments totaled \$1,159.

Deposits from principal officers, directors, and their affiliates were \$34,294 and \$46,964 at December 31, 2015 and 2014, respectively.

## **18. Capital Requirements and Restrictions on Retained Earnings**

Banks and financial holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, for the Bank, prompt corrective action (PCA) regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can result in regulatory enforcement actions. Management believes as of December 31, 2015 the Corporation and Bank meet all capital adequacy requirements to which they are subject.

The PCA regulations provide five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms alone do not represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion; brokered deposits may not be accepted, renewed or rolled over; and capital restoration plans are required. As of December 31, 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the PCA regulatory framework. There are no events or conditions since this notification that management believes have changed the Bank's capital category.

**Table of Contents**

Actual and required capital amounts and ratios are presented below as of December 31, 2015 and 2014:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2015</b>						
Total Capital to Risk Weighted Assets						
Consolidated	\$212,711	13.18%	\$129,135	8.0%	N/A	
Bank	\$193,301	12.07%	\$128,132	8.0%	\$160,166	10.0%
Tier 1 (Core) Capital to Risk Weighted Assets						
Consolidated	\$195,974	12.14%	\$96,851	6.0%	N/A	
Bank	\$178,353	11.14%	\$96,099	6.0%	\$128,132	8.0%
Common equity Tier 1 to Risk Weighted Assets						
Consolidated	\$175,974	10.90%	\$72,638	4.5%	N/A	
Bank	\$170,974	10.67%	\$72,074	4.5%	\$104,108	6.5%
Tier 1 (Core) Capital to Average Assets						
Consolidated	\$195,974	8.73%	\$89,782	4.0%	N/A	
Bank	\$178,353	8.06%	\$88,464	4.0%	\$110,581	5.0%
<b>December 31, 2014</b>						
Total Capital to Risk Weighted Assets						
Consolidated	\$199,034	14.30%	\$111,374	8.0%	N/A	
Bank	\$180,597	13.16%	\$109,758	8.0%	\$137,198	10.0%
Tier 1 (Core) Capital to Risk Weighted Assets						
Consolidated	\$181,661	13.05%	\$55,687	4.0%	N/A	
Bank	\$164,835	12.01%	\$54,879	4.0%	\$82,319	6.0%
Tier 1 (Core) Capital to Average Assets						
Consolidated	\$181,661	8.39%	\$86,641	4.0%	N/A	
Bank	\$164,835	7.71%	\$85,503	4.0%	\$106,878	5.0%

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules.

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Corporation in the form of cash dividends, loans or advances. During 2016, \$24,216 of accumulated net earnings of the Bank included in consolidated stockholders' equity, plus any 2016 net profits retained to the date of the dividend declared, is available for distribution to the Corporation as dividends without prior regulatory approval, subject to regulatory capital requirements described above.

## 19. 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.

**Table of Contents**

The contractual amount of financial instruments with off balance sheet risk was as follows at December 31, 2015 and 2014:

	2015		2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	\$42,803	\$259,032	\$28,831	\$254,269
Unused lines of credit	0	87,493	0	80,428
Standby letters of credit	0	15,704	0	15,132

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments at December 31, 2015 have interest rates ranging from 1.19% to 18.00% and maturities ranging from 3 months to 20 years. The fixed rate loan commitments at December 31, 2014 have interest rates ranging from 1.69% to 18.00% and maturities ranging from 3 months to 20 years.

In October 2015, the Corporation entered into a subscription agreement with Oxer BCP Mezzanine Fund, LP ( Oxer ) and committed to invest \$5,000 as a limited partner in the fund. Oxer is a Small Business Investment Company (SBIC) that is licensed and regulated by the Office of Investment at the Small Business Administration (SBA). The SBIC license allows SBICs to employ private capital and funds borrowed at a low cost using SBA-guaranteed securities to make investments in qualifying small businesses and similar enterprises as defined by SBA regulations. As of December 31, 2015, Oxer s general partner had not requested any of the capital committed by its limited partner investors.

**20. 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).

**Table of Contents**

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

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

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.

**Table of Contents**

Assets and liabilities measured at fair value on a recurring basis are as follows at December 31, 2015 and 2014:

Description	Total	Fair Value Measurements at December 31, 2015 Using Quoted Prices in Active Markets for		
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Securities Available For Sale:</b>				
U.S. Government sponsored entities	\$ 141,751	\$ 0	\$ 141,751	\$ 0
States and political subdivisions	171,819	0	171,819	0
Residential and multi-family mortgage	157,982	0	157,982	0
Corporate notes and bonds	18,688	0	18,688	0
Pooled trust preferred	3,413	0	0	3,413
Pooled SBA	51,409	0	51,409	0
Other equity securities	981	981	0	0
<b>Total Securities Available For Sale</b>	<b>\$ 546,043</b>	<b>\$ 981</b>	<b>\$ 541,649</b>	<b>\$ 3,413</b>
<b>Interest Rate swaps:</b>	<b>\$ 131</b>	<b>\$ 0</b>	<b>\$ 131</b>	<b>\$ 0</b>
<b>Trading Securities:</b>				
Corporate equity securities	\$ 3,389	\$ 3,389	\$ 0	\$ 0
Mutual funds	750	750	0	0
Certificates of deposit	253	253	0	0
Corporate notes and bonds	130	130	0	0
U.S. Government sponsored entities	54	0	54	0
<b>Total Trading Securities</b>	<b>\$ 4,576</b>	<b>\$ 4,522</b>	<b>\$ 54</b>	<b>\$ 0</b>
<b>Liabilities,</b>				
Interest rate swaps	\$ (867)	\$ 0	\$ (867)	\$ 0

Description	Total	Fair Value Measurements at December 31, 2014 Using Quoted Prices in Active Markets for		
		Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Securities Available For Sale:</b>				
U.S. Government sponsored entities	\$ 155,564	\$ 0	\$ 155,564	\$ 0
States and political subdivisions	181,002	0	181,002	0
Residential and multi-family mortgage	265,164	0	265,164	0
Corporate notes and bonds	19,430	0	19,430	0
Pooled trust preferred	905	0	0	905
Pooled SBA	62,653	0	62,653	0
Other equity securities	1,002	1,002	0	0
<b>Total Securities Available For Sale</b>	<b>\$ 685,720</b>	<b>\$ 1,002</b>	<b>\$ 683,813</b>	<b>\$ 905</b>

Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

<b>Trading Securities:</b>				
Corporate equity securities	\$ 3,044	\$ 3,044	\$ 0	\$ 0
Mutual funds	999	999	0	0
Certificates of deposit	253	253	0	0
Corporate notes and bonds	155	155	0	0
U.S. Government sponsored entities	54	0	54	0
<b>Total Trading Securities</b>	<b>\$ 4,505</b>	<b>\$ 4,451</b>	<b>\$ 54</b>	<b>\$ 0</b>
<b>Liabilities,</b>				
Interest rate swaps	\$ (946)	\$ 0	\$ (946)	\$ 0



**Table of Contents**

The table below presents a reconciliation and income statement classification of gains and losses for all securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2015:

	Pooled trust preferred
Balance, January 1, 2015	\$ 905
Total gains or (losses):	
Included in other comprehensive income (loss)	2,508
Included in realized gains on available-for-sale securities	0
Sale of available-for-sale securities	0
Balance, December 31, 2015	\$ 3,413

The table below presents a reconciliation and income statement classification of gains and losses for all securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2014:

	Pooled trust preferred
Balance, January 1, 2014	\$ 661
Total gains or (losses):	
Included in other comprehensive income (loss)	244
Included in realized gains on available-for-sale securities	0
Sale of available-for-sale securities	0
Balance, December 31, 2014	\$ 905

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

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	\$3,413	Discounted cash flow	Collateral default rate	1% in 2015; 0.5% in 2016 and thereafter
			Yield	9%
			Prepayment speed	2.0% constant prepayment rate in 2015 and thereafter

**Table of Contents**

The following table presents quantitative information about Level 3 fair value measurements at December 31, 2014:

	Fair value	Valuation Technique	Unobservable Inputs	Input Utilized
Pooled trust preferred	\$905	Discounted cash flow	Collateral default rate  Yield Prepayment speed	1% in 2015; 0.5% in 2016 and thereafter  11%  2.0% constant prepayment rate in 2015 and thereafter

At December 31, 2015 and 2014, the significant unobservable inputs used in the fair value measurement of the Corporation's pooled trust preferred securities are collateral default rate, yield, and prepayment speed. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement.

Assets and liabilities measured at fair value on a non-recurring basis are as follows at December 31, 2015 and 2014:

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

Description	Fair Value Measurements at December 31, 2014			
	Total	Using		
		Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	\$ 2,353	0	0	\$ 2,353
Commercial, industrial, and agricultural	2,820	0	0	2,820

Impaired loans measured for impairment using the fair value of collateral for collateral dependent loans had a recorded investment of \$3,489, with a valuation allowance of \$1,242 as of December 31, 2015, resulting in an additional provision for loan losses of \$414 for the year then ended. Impaired loans had a recorded investment of \$7,423, with a valuation allowance of \$2,250 as of December 31, 2014, resulting in an additional provision for loan losses of \$801 for the year then ended.

**Table of Contents**

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

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

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

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, 2014:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans commercial mortgages	\$ 2,353	Sales comparison approach	Adjustment for differences between the comparable sales	34% - 100% (44%)
Impaired loans commercial, industrial, and agricultural	\$ 2,820	Sales comparison approach	Adjustment for differences between the comparable sales	8% - 49% (13%)

**Fair Value of Financial Instruments**

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

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



**Table of Contents**

The following table presents the carrying amount and fair value of financial instruments at December 31, 2014:

	Carrying Amount	Fair Value Measurement Using:			Total Fair Value
		Level 1	Level 2	Level 3	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 27,928	\$ 27,928	\$ 0	\$ 0	\$ 27,928
Interest bearing time deposits with other banks	225	0	224	0	224
Securities available for sale	685,720	1,002	683,813	905	685,720
Trading securities	4,505	4,296	209	0	4,505
Loans held for sale	887	0	938	0	938
Net loans	1,337,916	0	0	1,337,537	1,337,537
FHLB and other equity interests	6,695	n/a	n/a	n/a	n/a
Accrued interest receivable	7,441	5	3,503	3,933	7,441
<b>LIABILITIES</b>					
Deposits	\$ (1,847,079)	\$ (1,670,172)	\$ (176,036)	\$ 0	(1,846,208)
FHLB and other borrowings	(111,695)	0	(111,821)	0	(111,821)
Subordinated debentures	(20,620)	0	(11,395)	0	(11,395)
Interest rate swaps	(946)	0	(946)	0	(946)
Accrued interest payable	(804)	(358)	(430)	(16)	(804)

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.

**Table of Contents**

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

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

**Subordinated debentures:** The fair value of the Corporation's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of arrangements, resulting in a Level 3 classification.

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

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

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

**21. Parent Company Only Financial Information (Dollars in thousands)****CONDENSED BALANCE SHEETS**

	December 31,	
	2015	2014
<b>Assets</b>		
Cash	\$ 1,557	\$ 1,556
Trading securities	434	417
Investment in bank subsidiary	197,226	184,671
Investment in non-bank subsidiaries	24,345	23,720
Deferred tax asset	482	529
Other assets	2,106	2,159
<b>Total assets</b>	<b>\$ 226,150</b>	<b>\$ 213,052</b>
<b>Liabilities</b>		
Borrowings from subsidiary	\$ 1,350	\$ 1,350
Subordinated debentures	20,620	20,620
Other liabilities	2,267	2,534
<b>Total liabilities</b>	<b>24,237</b>	<b>24,504</b>
<b>Total shareholders' equity</b>	<b>201,913</b>	<b>188,548</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 226,150</b>	<b>\$ 213,052</b>

**Table of Contents****CONDENSED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2015	2014	2013
Income:			
Dividends from:			
Bank subsidiary	\$ 10,404	\$ 10,675	\$ 1,875
Non-bank subsidiaries	323	0	6,674
Other	157	170	208
Total income	10,884	10,845	8,757
Expenses	(1,708)	(1,520)	(1,461)
Income before income taxes and equity in undistributed net income of subsidiaries:	9,176	9,325	7,296
Income tax benefit	547	473	438
Equity in undistributed net income of bank subsidiary	11,889	12,327	14,080
Equity in undistributed net income (loss) of non-bank subsidiaries	585	949	(5,135)
Net income	\$ 22,197	\$ 23,074	\$ 16,679

**CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2015	2014	2013
Net income			
Adjustments to reconcile net income to net cash provided by operating activities:	\$ 22,197	\$ 23,074	\$ 16,679
Equity in undistributed net income of bank subsidiary	(11,889)	(12,327)	(14,080)
Equity in undistributed (net income) loss of non-bank subsidiaries	(585)	(949)	5,135
Net unrealized (gains) losses on trading securities	(11)	1	(47)
Decrease (increase) in other assets	9	(13)	112
Increase in other liabilities	663	601	384
Net cash provided by operating activities	10,384	10,387	8,183
Cash flows from investing activities	0	0	0
Cash flows from financing activities:			
Dividends paid	(9,515)	(9,521)	(8,573)
Purchase of treasury stock	(868)	(1,675)	0
Net proceeds from sale of treasury stock and option exercises	0	587	739
Net advance to subsidiary	0	0	(600)
Net cash used in financing activities	(10,383)	(10,609)	(8,434)
Net increase (decrease) in cash	1	(222)	(251)
Cash beginning of year	1,556	1,778	2,029
Cash end of year	\$ 1,557	\$ 1,556	\$ 1,778

**Table of Contents****22. Other Comprehensive Income**

Other comprehensive income components and related tax effects were as follows for the years ended December 31, 2015, 2014, and 2013:

	2015	2014	2013
Unrealized holding (losses) gains on available for sale securities	\$ (623)	\$ 16,141	\$ (36,130)
Less reclassification adjustment for gains recognized in earnings	(666)	(429)	(355)
Net unrealized (losses) gains	(1,289)	15,712	(36,485)
Tax effect	452	(5,498)	12,770
Net-of-tax amount	(837)	10,214	(23,715)
Unrealized holding gains on available for sale securities for which a portion of an other-than-temporary impairment has been recognized in earnings	2,508	244	61
Less reclassification adjustment for impairment loss recognized in earnings	0	0	0
Net unrealized gains	2,508	244	61
Tax effect	(878)	(86)	(21)
Net-of-tax amount	1,630	158	40
Actuarial loss on postemployment health care plan	(311)	(117)	(219)
Net amortization of transition obligation and actuarial gain	173	149	61
Net unrealized loss on postemployment health care plan	(138)	32	(158)
Tax effect	48	(11)	55
Net-of-tax amount	(90)	21	(103)
Unrealized gain (loss) on interest rate swap	(168)	(213)	229
Less reclassification adjustment for losses recognized in earnings	378	384	400
Net unrealized gain (loss)	210	171	629
Tax effect	(73)	(60)	(220)
Net-of-tax amount	137	111	409
Other comprehensive income (loss)	\$ 840	\$ 10,504	\$ (23,369)

The following is a summary of the change in the accumulated other comprehensive income (loss) balance, net of tax, for the years ended December 31, 2015, 2014, and 2013:

	Balance 1/1/13	Increase (Decrease)	Balance 12/31/13	Increase (Decrease)	Balance 12/31/14	Increase (Decrease)	Balance 12/31/15
Unrealized gains (losses) on securities available for sale	\$ 16,039 (981)	\$ (23,675) (103)	\$ (7,636) (1,084)	\$ 10,372 21	\$ 2,736 (1,063)	\$ 793 (90)	\$ 3,529 (1,153)



Edgar Filing: CNB FINANCIAL CORP/PA - Form 10-K

Unrealized gain (loss) on postretirement benefits plan								
Unrealized loss on interest rate swap	(1,134)	409	(725)	111	(614)	137	(477)	
Total	\$ 13,924	\$ (23,369)	\$ (9,445)	\$ 10,504	\$ 1,059	\$ 840	\$ 1,899	

**Table of Contents****23. Quarterly Financial Data (Unaudited)**

The unaudited quarterly results of operations for the years ended December 31, 2015 and 2014 are as follows (in thousands, except per share data):

	Quarters Ended in 2015				Quarters Ended in 2014			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Total interest and dividend income	\$ 21,641	\$ 21,306	\$ 22,237	\$ 21,994	\$ 21,437	\$ 21,418	\$ 21,532	\$ 22,495
Net interest income	18,590	18,151	19,038	18,928	18,280	18,443	18,440	19,432
Provision for loan losses	943	486	463	668	1,019	1,501	1,038	282
Non-interest income	3,097	4,141	3,415	4,146	3,205	3,514	3,496	4,106
Non-interest expense	13,093	14,121	14,427	14,816	13,261	12,608	13,150	13,669
Net income	5,565	5,602	5,522	5,508	5,166	5,617	5,548	6,743
Net income per share, basic	0.39	0.39	0.38	0.38	0.36	0.39	0.39	0.47
Net income per share, diluted	0.39	0.39	0.38	0.38	0.36	0.39	0.39	0.47

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**Crowe Horwath LLP**

**Independent Member Crowe Horwath International**

Board of Directors and Shareholders

CNB Financial Corporation

Clearfield, Pennsylvania

We have audited the accompanying consolidated balance sheets of CNB Financial Corporation as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2015. We also have audited CNB Financial Corporation's internal control over financial reporting as of December 31, 2015 based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CNB Financial Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting located in Item 9A of Form 10-K. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

**Table of Contents**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNB Financial Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, CNB Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the COSO.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio

March 4, 2016

---

**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

The Corporation's management, under the supervision of and with the participation of the Corporation's Principal Executive Officer and Principal Financial Officer, has carried out an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, management, including the Principal Executive Officer and Principal Financial Officer, have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that all material information required to be disclosed in reports the Corporation files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no significant change in the Corporation's internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S.

The Corporation's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the

**Table of Contents**

Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2015. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Crowe Horwath LLP, an independent registered public accounting firm that audited the Corporation's financial statements, as stated in their report which is located in Item 8 of this Form 10-K.

Joseph B. Bower, Jr.  
President and Chief Executive Officer

Brian W. Wingard  
Treasurer and Principal Financial Officer

Date: March 4, 2016

Date: March 4, 2016

**Table of Contents**

**ITEM 9B. OTHER INFORMATION**

None

**PART III.**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

See Part I Item 1 Executive Officers for information about our executive officers, which is incorporated by reference in this Item 10. Other information required by this Item 10 is incorporated herein by reference from our definitive proxy statement for our 2016 annual meeting of stockholders (the 2016 proxy statement), which we will file with the SEC on or before 120 days after our 2015 fiscal year-end, and which will appear in the 2016 proxy statement under the captions Proposal 1. Election of Class 1 Directors, Corporate Governance Meetings and Committees of the Board of Directors Audit Committee and Section 16(a) Beneficial Ownership Reporting Compliance.

The Corporation's board of directors has approved a Code of Ethics for Officers and Directors. The Code of Ethics can be found at the Bank's website, [www.cnbbank.bank](http://www.cnbbank.bank).

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item 11 is incorporated herein by reference from the 2016 proxy statement, including the information in the 2016 proxy statement appearing under the captions Executive Compensation and Compensation of Directors.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this Item 12 is incorporated herein by reference from the 2016 proxy statement, including the information in the 2016 proxy statement appearing under the captions Stock Ownership and Equity Compensation Plan Information.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this Item 13 is incorporated herein by reference from the 2016 proxy statement, including the information in the 2016 proxy statement appearing under the captions Corporate Governance and Certain Transactions.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this Item 14 is incorporated herein by reference from the 2016 proxy statement, including the information in the 2016 proxy statement appearing under the captions Corporate Governance Meetings and Committees of the Board of Directors Audit Committee and Concerning the Independent Registered Public Accountants.

**Table of Contents**

**PART IV.**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) The following consolidated financial statements are set forth in Part II, Item 8:

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2015, 2014, and 2013

Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2015, 2014, and 2013

Notes to Consolidated Financial Statements

(a)(2) Financial statement schedules are not applicable or are included in the consolidated financial statements or related notes.

(a)(3) The following exhibits (asterisk denotes management contract or compensatory plan) are filed as a part of this report:

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 26, 2013, by and between the Corporation and FC Banc Corp., filed with the SEC as Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed on March 26, 2013, and incorporated herein by reference.
2.2	Agreement and Plan of Merger, dated as of December 29, 2015, by and between the Corporation, the Bank and Lake National Bank, filed with the SEC as Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed on December 30, 2015, and incorporated herein by reference.
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 as Appendix C to the 2006 Proxy Statement, filed with the SEC on March 24, 2006, and incorporated herein by reference.
10.1	Employment contract with Joseph B. Bower, Jr., President and Chief Executive Officer, filed as Exhibit 10.1 to Form 8-K, filed with the SEC on March 9, 2012, and incorporated herein by reference.*
10.2	1999 Stock Incentive Plan, filed as Exhibit A to the 1999 Proxy Statement, filed with the SEC on March 29, 1999, and incorporated herein by reference.*
10.3	2009 Stock Incentive Plan, filed as Exhibit 10(iii)-4 to Registration Statement No. 333-159941, filed with the SEC on November 12, 2009, and incorporated herein by reference.*
10.4	Employment contract with Mark D. Breakey, Executive Vice President/Chief Credit Officer, filed as Exhibit 10.4 to Form 8-K, filed with the SEC on March 9, 2012, and incorporated herein by reference.*



**Table of Contents**

Exhibit No.	Description
10.5	Employment contract with Richard L. Greslick, Jr., Executive Vice President/Chief Operating Officer, filed as Exhibit 10.2 to Form 8-K, filed with the SEC on March 9, 2012, and incorporated herein by reference.*
10.6	Executive employment contract with Joseph E. Dell, Jr., Senior Vice President/Chief Lending Officer, filed as Exhibit 10.7 to Form 10-K, filed with the SEC on March 7, 2014, and incorporated herein by reference.*
10.7	Executive employment contract with Brian W. Wingard, Treasurer, filed as Exhibit 10.1 to Form 8-K, filed with the SEC on March 25, 2014, and incorporated herein by reference.*
21	Subsidiaries of the Registrant, filed as Exhibit 21 herewith.
23.1	Consent of Independent Registered Public Accounting Firm
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
99.1	Additional information mailed to shareholders with proxy statement and Form 10-K
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

\* Denotes management contract or compensatory plan.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: March 4, 2016

By: /s/ Joseph B. Bower, Jr.  
JOSEPH B. BOWER, JR.  
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 4, 2016.

/s/ Joseph B. Bower, Jr.  
JOSEPH B. BOWER, JR.  
President and Director  
(Principal Executive Officer)

/s/ Dennis L. Merrey  
DENNIS L. MERREY, Chairman

/s/ Richard L. Greslick, Jr.  
RICHARD L. GRESLICK, JR.  
Secretary and Director

/s/ James B. Ryan  
JAMES B. RYAN, Director

/s/ Brian W. Wingard  
BRIAN W. WINGARD  
Treasurer  
(Principal Financial and Accounting Officer)

/s/ Nicholas C. Scott, Jr.  
NICHOLAS C. SCOTT, JR., Director

/s/ William F. Falger  
WILLIAM F. FALGER, Director

/s/ Richard B. Seager  
RICHARD B. SEAGER, Director

/s/ Robert W. Montler  
ROBERT W. MONTLER, Director

/s/ Peter F. Smith  
PETER F. SMITH, Director

/s/ Deborah Dick Pontzer  
DEBORAH DICK PONTZER, Director

/s/ Peter C. Varischetti  
PETER C. VARISCHETTI, Director

/s/ Joel E. Peterson  
JOEL E. PETERSON, Director

/s/ Jeffrey S. Powell  
JEFFREY S. POWELL, Director

**Table of Contents**

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 26, 2013, by and between the Corporation and FC Banc Corp., filed with the SEC as Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed on March 26, 2013, and incorporated herein by reference.
2.2	Agreement and Plan of Merger, dated as of December 29, 2015, by and between the Corporation, the Bank and Lake National Bank, filed with the SEC as Exhibit 2.1 to the Corporation's Current Report on Form 8-K filed on December 30, 2015, and incorporated herein by reference.
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 as Appendix C to the 2006 Proxy Statement, filed with the SEC on March 24, 2006, and incorporated herein by reference.
10.1	Employment contract with Joseph B. Bower, Jr., President and Chief Executive Officer, filed as Exhibit 10.1 to Form 8-K, filed with the SEC on March 9, 2012, and incorporated herein by reference.*
10.2	1999 Stock Incentive Plan, filed as Exhibit A to the 1999 Proxy Statement, filed with the SEC on March 29, 1999, and incorporated herein by reference.*
10.3	2009 Stock Incentive Plan, filed as Exhibit 10(iii)-4 to Registration Statement No. 333-159941, filed with the SEC on November 12, 2009, and incorporated herein by reference.*
10.4	Employment contract with Mark D. Breakey, Executive Vice President/Chief Credit Officer, filed as Exhibit 10.4 to Form 8-K, filed with the SEC on March 9, 2012, and incorporated herein by reference.*
10.5	Employment contract with Richard L. Greslick, Jr., Executive Vice President/Chief Operating Officer, filed as Exhibit 10.2 to Form 8-K, filed with the SEC on March 9, 2012, and incorporated herein by reference.*
10.6	Executive employment contract with Joseph E. Dell, Jr., Senior Vice President/Chief Lending Officer, filed as exhibit 10.7 to Form 10-K, filed with the SEC on March 7, 2014, and incorporated herein by reference.*
10.7	Executive employment contract with Brian W. Wingard, Treasurer, filed as Exhibit 10.1 to Form 8-K, filed with the SEC on March 25, 2014, and incorporated herein by reference.*
21	Subsidiaries of the Registrant, filed as Exhibit 21 herewith.
23.1	Consent of Independent Registered Public Accounting Firm
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

**Table of Contents**

Exhibit No.	Description
99.1	Additional information mailed to shareholders with proxy statement and Form 10-K
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

\* Denotes management contract or compensatory plan.