FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly period ended March 31, 2018

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

| | | |
|---|---|---|
| Large accelerated filer | | Accelerated filer |
| Non-accelerated filer | (Do not check if a small reporting company) | Small reporting company |
| Emerging growth company | | |

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

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

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

| Class | Outstanding at April 30, 2018 |
|---|---|
| Common Stock, No Par Value | 27,640,921 shares |

1

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) | |
|---|---|---|
| | March 31, | December 31, |
| (Unaudited) | 2018 | 2017 |
| ASSETS | | |
| Cash and due from banks | $21,433 | $17,785 |
| Federal funds sold and other | 30,716 | 39,829 |
| TOTAL CASH AND CASH EQUIVALENTS | 52,149 | 57,614 |
| Securities available for sale | 384,396 | 392,937 |
| Equity securities | 6,009 | 5,579 |
| Loans held for sale | 399 | 272 |
| Loans | 1,599,339 | 1,577,381 |
| Less allowance for loan losses | 12,550 | 12,315 |
| NET LOANS | 1,586,789 | 1,565,066 |
| Premises and equipment, net | 21,992 | 22,286 |
| Goodwill | 38,201 | 38,201 |
| Other intangibles | 6,814 | 7,168 |
| Bank owned life insurance | 34,099 | 33,877 |
| Other assets | 36,669 | 36,069 |
| TOTAL ASSETS | $2,167,517 | $2,159,069 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Noninterest-bearing | $402,499 | $412,346 |
| Interest-bearing | 1,234,660 | 1,192,373 |
| TOTAL DEPOSITS | 1,637,159 | 1,604,719 |
| Short-term borrowings | 268,012 | 289,565 |
| Long-term borrowings | 6,804 | 6,994 |
| Other liabilities | 14,302 | 15,717 |
| TOTAL LIABILITIES | 1,926,277 | 1,916,995 |
| Commitments and contingent liabilities | | |
| Stockholders' Equity: | | |
| Common Stock - Authorized 35,000,000 shares; issued 28,179,598 in 2018 and 2017 | 186,594 | 186,903 |
| Retained earnings | 65,168 | 59,208 |
| Accumulated other comprehensive income (loss) | (6,595) | 596 |
| Treasury stock, at cost; 538,677 shares in 2018 and 635,550 in 2017 | (3,927) | (4,633) |
| TOTAL STOCKHOLDERS' EQUITY | 241,240 | 242,074 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $2,167,517 | $2,159,069 |

See accompanying notes

2

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands except Per Share Data) For the Three Months Ended | |
|---|---|---|
| | March 31, | March 31, |
| (Unaudited) | 2018 | 2017 |
| INTEREST AND DIVIDEND INCOME | | |
| Loans, including fees | $18,427 | $16,483 |
| Taxable securities | 1,233 | 1,118 |
| Tax exempt securities | 1,331 | 1,071 |
| Dividends | 146 | 115 |
| Federal funds sold and other interest income | 145 | 63 |
| TOTAL INTEREST AND DIVIDEND INCOME | 21,282 | 18,850 |
| INTEREST EXPENSE | | |
| Deposits | 1,411 | 914 |
| Short-term borrowings | 881 | 327 |
| Long-term borrowings | 44 | 78 |
| TOTAL INTEREST EXPENSE | 2,336 | 1,319 |
| NET INTEREST INCOME | 18,946 | 17,531 |
| Provision for loan losses | 775 | 1,050 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 18,171 | 16,481 |
| NONINTEREST INCOME | | |
| Service charges on deposit accounts | 1,003 | 951 |
| Bank owned life insurance income | 222 | 201 |
| Trust fees | 1,807 | 1,678 |
| Insurance agency commissions | 699 | 674 |
| Security gains, including fair value changes for equity securities | 18 | 13 |
| Retirement plan consulting fees | 379 | 513 |
| Investment commissions | 256 | 222 |
| Net gains on sale of loans | 487 | 607 |
| Debit card and EFT fees | 806 | 653 |
| Other operating income | 333 | 375 |
| TOTAL NONINTEREST INCOME | 6,010 | 5,887 |
| NONINTEREST EXPENSES | | |
| Salaries and employee benefits | 8,738 | 8,287 |
| Occupancy and equipment | 1,704 | 1,587 |
| State and local taxes | 459 | 417 |
| Professional fees | 698 | 747 |
| Merger related costs | 25 | 62 |
| Advertising | 275 | 244 |

| | | |
|---|---|---|
| FDIC insurance | 222 | 235 |
| Intangible amortization | 354 | 365 |
| Core processing charges | 739 | 655 |
| Telephone and data | 237 | 241 |
| Other operating expenses | 1,645 | 1,773 |
| TOTAL NONINTEREST EXPENSES | 15,096 | 14,613 |
| INCOME BEFORE INCOME TAXES | 9,085 | 7,755 |
| INCOME TAXES | 1,359 | 1,972 |
| NET INCOME | $7,726 | $5,783 |
| EARNINGS PER SHARE - basic and diluted | $0.28 | $0.21 |

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) For the Three Months Ended | |
|---|---|---|
| | March 31, | March 31, |
| (Unaudited) | 2018 | 2017 |
| NET INCOME | $7,726 | $5,783 |
| Other comprehensive income: | | |
| Net unrealized holding gains (losses) on available for sale securities | (8,886) | 375 |
| Reclassification adjustment for gains realized in income | (2) | (13) |
| Net unrealized holding gains (losses) | (8,888) | 362 |
| Income tax effect | 1,866 | (128) |
| Other comprehensive income (loss), net of tax | (7,022) | 234 |
| TOTAL COMPREHENSIVE INCOME | $704 | $6,017 |

See accompanying notes

4

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| (Unaudited) | (In Thousands of Dollars) For the Three Months Ended March 31, 2018 |
|---|---|
| COMMON STOCK | |
| Beginning balance | $ 186,903 |
| Issued 96,873 shares under the Long Term Incentive Plan | (706) |
| Stock compensation expense for 608,761 unvested shares | 397 |
| Ending balance | 186,594 |
| | |
| RETAINED EARNINGS | |
| Beginning balance | 59,208 |
| Cumulative effect adjustment upon adoption of ASU 2016-01 | 169 |
| Beginning balance adjusted | 59,377 |
| Net income | 7,726 |
| Dividends declared at $.07 per share | (1,935) |
| Ending balance | 65,168 |
| | |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | |
| Beginning balance | 596 |
| Cumulative effect adjustment upon adoption of ASU 2016-01 | (169) |
| Beginning balance adjusted | 427 |
| Other comprehensive loss | (7,022) |
| Ending balance | (6,595) |
| | |
| TREASURY STOCK, AT COST | |
| Beginning balance | (4,633) |
| Issued 96,873 shares under the Long Term Incentive Plan | 706 |
| Ending balance | (3,927) |
| TOTAL STOCKHOLDERS' EQUITY | $ 241,240 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

| | (In Thousands of Dollars) Three Months Ended | |
|---|---|---|
| | March 31, | March 31, |
| (Unaudited) | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $7,726 | $5,783 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Provision for loan losses | 775 | 1,050 |
| Depreciation and amortization | 749 | 879 |
| Net amortization of securities | 756 | 511 |
| Security gains, including fair value changes for equity securities | (18) | (13) |
| Stock compensation expense | 397 | 181 |
| (Gain) loss on sale of other real estate owned | (30) | 33 |
| Loss on fixed asset disposal | 0 | 6 |
| Earnings on bank owned life insurance | (222) | (201) |
| Origination of loans held for sale | (9,226) | (15,256) |
| Proceeds from loans held for sale | 9,586 | 15,120 |
| Net gains on sale of loans | (487) | (607) |
| Net change in other assets and liabilities | (28) | (1,285) |
| NET CASH FROM OPERATING ACTIVITIES | 9,978 | 6,201 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from maturities and repayments of securities available for sale | 12,968 | 14,301 |
| Proceeds from sales of securities available for sale | 262 | 43,263 |
| Purchases of securities available for sale | (14,335) | (54,891) |
| Purchase of restricted stock | (643) | (391) |
| Loan originations and payments, net | (22,521) | (34,409) |
| Proceeds from sale of other real estate owned | 165 | 131 |
| Additions to premises and equipment | (89) | (405) |
| NET CASH FROM INVESTING ACTIVITIES | (24,193) | (32,401) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | 32,440 | 15,464 |
| Net change in short-term borrowings | (21,553) | 36,768 |
| Repayment of long-term borrowings | (202) | (5,207) |
| Cash dividends paid | (1,935) | (1,352) |
| NET CASH FROM FINANCING ACTIVITIES | 8,750 | 45,673 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (5,465) | 19,473 |
| Beginning cash and cash equivalents | 57,614 | 41,778 |
| Ending cash and cash equivalents | $52,149 | $61,251 |
| Supplemental cash flow information: | | |

| | | |
|---|---|---|
| Interest paid | $2,306 | $1,319 |
| Supplemental noncash disclosures: | | |
| Transfer of loans to other real estate | $23 | $0 |
| Security purchases not settled | $300 | $9,886 |
| Issuance of stock awards | $706 | $132 |

See accompanying notes

6

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. ("Company") is a Financial Holding Company registered under the Bank Holding Company Act of 1956, as amended.  The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield ("Bank").  The Bank acquired Bowers Insurance Agency, Inc. ("Bowers") and consolidated the activity of the Bowers with Farmers National Insurance ("Insurance") during 2016.  The Company acquired Monitor Bancorp, Inc. ("Monitor"), the holding company for Monitor Bank in August of 2017 and consolidated all activity within the Bank.  Farmers National Captive, Inc. ("Captive") was formed during the third quarter of 2016 and is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and its subsidiaries.  The Captive pools resources with thirteen other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves and to provide insurance where not currently available or economically feasible in today's insurance market place.  The consolidated financial statements also include the accounts of the Bank's subsidiaries; Insurance and Farmers of Canfield Investment Co. ("Investments").  The Company provides trust services through its subsidiary, Farmers Trust Company ("Trust"), retirement consulting services through National Associates, Inc. ("NAI") and insurance services through the Bank's subsidiary, Insurance.  The consolidated financial statements include the accounts of the Company, the Bank and its subsidiaries, along with the Trust, NAI and Captive.  All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X.  Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements.  The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2017 Annual Report to Shareholders included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.  The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented.  The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.  Certain items included in the prior period financial statements were reclassified to conform to the current period presentation. There was no effect on net income or total stockholders' equity.

Estimates:

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

Segments:

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

Equity:

The Company, with the approval of shareholders at the April 2018 annual meeting, increased the authorized shares available for issuance from 35,000,000 to 50,000,000 shares. Outstanding shares at March 31, 2018 were 27,640,921.

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists of unrealized gains and losses on securities available for sale and changes in the funded status of the post-retirement health plan, which are recognized as components of stockholders equity, net of tax effect. The post-retirement health plan was eliminated during 2017 and the associated balance sheet accounts, including other comprehensive income were reduced to zero.

New Accounting Standards:

During April of 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. Under current U.S. GAAP, a premium is typically amortized to the maturity date when a callable debt security is purchased at a premium, even if the holder is certain the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. The new standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. The standard takes effect for public business entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company early adopted this ASU effective January 1, 2018 and there was no material impact on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13: Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for public companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company has begun to accumulate historical credit information, established an internal committee and engaged a software provider in preparation for testing the systems in early 2019. Adoption of ASU 2016-13 will happen on January 1, 2020. Management has not determined the full impact the new standard will have on the Consolidated Financial Statements.

In January 2016, FASB issued ASU 2016-01: Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective of ASU 2016-01 is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. The Company adopted this ASU 2016-01 on January 1, 2018 and recorded a cumulative effect adjustment of $169 thousand increase to retained earnings and a decrease to accumulated other comprehensive income. The change in fair value for equity securities which is now recorded in net income rather than comprehensive income was not material for the three months ended March 31, 2018.

In May 2014, FASB issued ASU 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 the Company's year ending December 31, 2018 and was adopted as of January 1, 2018. Interest income is outside of the scope of the new standard and will not be impacted by the adoption of the standard. An evaluation of the Company's noninterest income streams resulted in no change in revenue recognition since adoption, nor is it expected to change revenue recognition prospectively in a significant way. Refer to the Revenue from Contracts with Customers footnote for further discussion on the Company's accounting for revenue sources within the scope of ASC 606.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

Business Combinations:

On August 15, 2017, the Company completed the acquisition of Monitor Bancorp, Inc. ("Monitor"), the holding company for Monitor Bank. The transaction involved both cash and 465,787 shares of stock totaling $7.5 million. Pursuant to the terms of the merger agreement, common shareholders of Monitor were entitled to elect to receive consideration in cash or in common shares, without par value, of the Farmers National Banc Corp., subject to an overall limitation of 85% of the Monitor common shares being exchanged for Farmers common shares and 15% exchanged for cash. The per share cash consideration of $769.38 is equal to Monitor's March 31 tangible book value multiplied by 1.25. Based on the volume weighted average closing price of Farmers common shares for the 20 trading days ended August 11, 2017 of $14.04, the final stock exchange ratio was 54.80, resulting in an implied value per Monitor common share of $769.38.

Goodwill of $1.0 million, which is recorded on the balance sheet, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill was determined not to be deductible for income tax purposes. The fair value of other intangible assets of $673 thousand is related to core deposits.

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

| (In Thousands of Dollars) | |
|---|---|
| Consideration | |
| Cash | $1,154 |
| Stock | 6,358 |
| Fair value of total consideration transferred | $7,512 |
| Fair value of assets acquired | |
| Cash and due from financial institutions | $17,673 |
| Securities available for sale | 3,057 |
| Loans, net | 19,315 |
| Premises and equipment | 192 |
| Core deposit intangible | 673 |
| Other assets | 272 |
| Total assets | 41,182 |
| Fair value of liabilities assumed | |
| Deposits | 34,586 |
| Accrued interest payable and other liabilities | 121 |
| Total liabilities | 34,707 |
| Net assets acquired | $6,475 |
| Goodwill created | 1,037 |
| Total net assets acquired | $7,512 |

The valuation of some assets acquired or created including but not limited to net loans and goodwill are preliminary and could be subject to change. The Company does not expect any adjustments to the valuations of these acquired assets to occur and if so the adjustments are not expected to be material.

On June 1, 2016, the Bank completed the acquisition of the Bowers Insurance Agency, Inc., and merged all activity of Bowers with Insurance, the Bank's wholly-owned insurance agency subsidiary. The Bowers group is engage in selling insurance including commercial, farm, home, and auto property/casualty insurance and will help to meet the needs of all the Company's customers. The transaction involved both cash and 123,280 shares of stock totaling $3.2 million, including up to $1.2 million of future payments, contingent upon Bowers meeting performance targets, with an estimated fair value at the acquisition date of $880 thousand. The first of three contingent payments of cash and stock were made, during July 2017, totaling $316 thousand, which reduce the earnout payable to $564 thousand. Subsequent to the payment, management conducted a valuation of the contingent consideration and found it necessary to reduce the future payment liability associated with the remaining two payments down to $200 thousand at year end 2017. The $364 thousand was recorded as a reduction to acquisition related costs in the Consolidated Statements of Income as of December 31, 2017. The Company conducts this valuation work annually. The acquisition is part of the Company's plan to increase the levels of noninterest income and to complement the existing insurance services currently being offered.

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

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

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

The following table presents pro forma information as if the above acquisition that occurred during August 2017 actually took place at the beginning of 2017. The pro forma information includes adjustments for merger related costs, amortization of intangibles arising from the transaction and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effective on the assumed date.

| (In thousands of dollars except per share results) | For Three Months Ended March 31, 2017 |
|---|---|
| Net interest income | $17,863 |
| Net income | $5,849 |
| Basic and diluted earnings per share | $0.21 |

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at March 31, 2018 and December 31, 2017 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

| (In Thousands of Dollars) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2018 | | | | |
| U.S. Treasury and U.S. government sponsored entities | $ 6,166 | $ 0 | $ (137) | $ 6,029 |
| State and political subdivisions | 191,491 | 1,728 | (3,185) | 190,034 |
| Corporate bonds | 1,184 | 0 | (23) | 1,161 |
| Mortgage-backed securities - residential | 162,503 | 37 | (5,244) | 157,296 |
| Collateralized mortgage obligations - residential | 17,151 | 0 | (1,018) | 16,133 |
| Small Business Administration | 14,249 | 0 | (506) | 13,743 |
| Totals | $ 392,744 | $ 1,765 | $ (10,113) | $ 384,396 |

10

| (In Thousands of Dollars) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| December 31, 2017 | | | | |
| U.S. Treasury and U.S. government sponsored entities | $ 8,986 | $ 0 | $ (69 ) | $ 8,917 |
| State and political subdivisions | 188,032 | 3,614 | (643 ) | 191,003 |
| Corporate bonds | 1,238 | 4 | (8 ) | 1,234 |
| Mortgage-backed securities - residential | 161,635 | 419 | (1,604 ) | 160,450 |
| Collateralized mortgage obligations - residential | 17,898 | 0 | (777 ) | 17,121 |
| Small Business Administration | 14,608 | 0 | (396 ) | 14,212 |
| Totals | $ 392,397 | $ 4,037 | $ (3,497 ) | $ 392,937 |

Proceeds from the sale of portfolio securities were $262 thousand during the three month period ended March 31, 2018. Gross gains of $4 thousand along with gross losses of $2 thousand were realized on these sales during the three month period ended March 31, 2018. $16 thousand of unrealized gains were recognized in the income statement for equity securities during the same three month period as a result of adoption of ASU 2016-01. Proceeds from the sale of portfolio securities were $43.3 million during the three month period ended March 31, 2017. Gross gains were $562 thousand and along with gross losses of $549 thousand during the same three month period ended March 31, 2017.

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

| | March 31, 2018 | |
|---|---|---|
| (In Thousands of Dollars) | Amortized Cost | Fair Value |
| Maturity | | |
| Within one year | $ 11,302 | $ 11,255 |
| One to five years | 47,214 | 47,035 |
| Five to ten years | 123,704 | 123,070 |
| Beyond ten years | 16,621 | 15,864 |
| Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities | 193,903 | 187,172 |
| Total | $ 392,744 | $ 384,396 |

The following table summarizes the investment securities with unrealized losses at March 31, 2018 and December 31, 2017, aggregated by major security type and length of time in a continuous unrealized loss position.

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| (In Thousands of Dollars) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| March 31, 2018 | | | | | | |
| Available-for-sale | | | | | | |
| U.S. Treasury and U.S. government sponsored entities | $4,175 | $ (79) | $1,854 | $ (58) | $6,029 | $ (137) |
| State and political subdivisions | 70,499 | (2,019) | 24,947 | (1,166) | 95,446 | (3,185) |
| Corporate bonds | 784 | (12) | 377 | (11) | 1,161 | (23) |
| Mortgage-backed securities - residential | 104,615 | (2,671) | 50,549 | (2,573) | 155,164 | (5,244) |
| Collateralized mortgage obligations - residential | 1,609 | (37) | 14,524 | (981) | 16,133 | (1,018) |
| Small Business Administration | 0 | 0 | 13,716 | (506) | 13,716 | (506) |
| Total | $181,682 | $ (4,818) | $105,967 | $ (5,295) | $287,649 | $ (10,113) |

11

| (In Thousands of Dollars) | Less than 12 Months Fair Value | Unrealized Loss | 12 Months or Longer Fair Value | Unrealized Loss | Total Fair Value | Unrealized Loss |
|---|---|---|---|---|---|---|
| December 31, 2017 | | | | | | |
| Available-for-sale | | | | | | |
| U.S. Treasury and U.S. government sponsored entities | $3,970 | $ (34 ) | $1,912 | $ (35 ) | $5,882 | $ (69 ) |
| State and political subdivisions | 33,188 | (220 ) | 25,721 | (423 ) | 58,909 | (643 ) |
| Corporate bonds | 397 | (3 ) | 383 | (5 ) | 780 | (8 ) |
| Mortgage-backed securities - residential | 40,072 | (400 ) | 53,760 | (1,204 ) | 93,832 | (1,604 ) |
| Collateralized mortgage obligations - residential | 1,701 | (22 ) | 15,420 | (755 ) | 17,121 | (777 ) |
| Small Business Administration | 0 | 0 | 14,182 | (396 ) | 14,182 | (396 ) |
| Total | $79,328 | $ (679 ) | $111,378 | $ (2,818 ) | $190,706 | $ (3,497 ) |

Other-Than-Temporary-Impairment

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

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

As of March 31, 2018, the Company’s security portfolio consisted of 562 securities, 312 of which were in an unrealized loss position.  The majority of the unrealized losses on the Company’s securities are related to its holdings of mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities, and Small Business Administration securities as discussed below.

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

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

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

Loans:

Loan balances were as follows:

| (In Thousands of Dollars) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Originated loans: | | |
| Commercial real estate | | |
| Owner occupied | $147,907 | $140,321 |
| Non-owner occupied | 208,306 | 199,080 |
| Farmland | 83,800 | 70,534 |
| Other | 73,101 | 89,025 |
| Commercial | | |
| Commercial and industrial | 207,807 | 193,347 |
| Agricultural | 29,894 | 32,587 |
| Residential real estate | | |
| 1-4 family residential | 281,002 | 272,421 |
| Home equity lines of credit | 71,449 | 71,507 |
| Consumer | | |
| Indirect | 160,804 | 155,950 |
| Direct | 27,756 | 28,519 |
| Other | 8,584 | 8,876 |
| Total originated loans | $1,300,410 | $1,262,167 |
| Acquired loans: | | |
| Commercial real estate | | |
| Owner occupied | $51,157 | $53,031 |
| Non-owner occupied | 19,489 | 20,286 |
| Farmland | 45,552 | 47,754 |
| Other | 11,668 | 11,964 |
| Commercial | | |
| Commercial and industrial | 23,691 | 27,094 |
| Agricultural | 11,479 | 12,206 |
| Residential real estate | | |
| 1-4 family residential | 91,616 | 96,759 |
| Home equity lines of credit | 28,283 | 28,755 |
| Consumer | | |
| Direct | 12,837 | 14,378 |
| Other | 107 | 128 |
| Total acquired loans | $295,879 | $312,355 |
| Net Deferred loan costs | 3,050 | 2,859 |
| Allowance for loan losses | (12,550) | (12,315) |
| Net loans | $1,586,789 | $1,565,066 |

Purchased credit impaired loans

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

| (In Thousands of Dollars) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial real estate | | |
| Owner occupied | $706 | $ 670 |
| Non-owner occupied | 378 | 387 |
| Commercial | | |
| Commercial and industrial | 1,015 | 1,072 |
| Total outstanding balance | $2,099 | $ 2,129 |
| Carrying amount, net of allowance of $0 in 2018 and 2017 | $1,722 | $ 1,733 |

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

| | Three Months Ended | |
|---|---|---|
| (In Thousands of Dollars) | March 31, 2018 | March 31, 2017 |
| Beginning balance | $170 | $ 247 |
| New loans purchased | 0 | 0 |
| Accretion of income | (19 ) | (19 ) |
| Ending balance | $151 | $ 228 |

The key assumptions considered include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income and principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. There were no adjustments to forecasted cash flows that impacted the allowance for loan losses for the three month period ended March 31, 2018.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three month periods ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses | | | | | | |
| Beginning balance | $ 4,260 | $ 2,011 | $ 2,521 | $ 2,848 | $ 675 | $ 12,315 |
| Provision for loan losses | 142 | 147 | 75 | 527 | (116) | 775 |
| Loans charged off | 0 | (97) | (56) | (629) | 0 | (782) |
| Recoveries | 2 | 1 | 61 | 178 | 0 | 242 |
| Total ending allowance balance | $ 4,404 | $ 2,062 | $ 2,601 | $ 2,924 | $ 559 | $ 12,550 |

Three Months Ended March 31, 2017

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses | | | | | | |
| Beginning balance | $ 3,577 | $ 1,874 | $ 2,205 | $ 2,766 | $ 430 | $ 10,852 |
| Provision for loan losses | 77 | 17 | 109 | 576 | 271 | 1,050 |
| Loans charged off | (140) | (102) | (6) | (695) | 0 | (943) |
| Recoveries | 124 | 57 | 13 | 166 | 0 | 360 |
| Total ending allowance balance | $ 3,638 | $ 1,846 | $ 2,321 | $ 2,813 | $ 701 | $ 11,319 |

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment, based on impairment method as of March 31, 2018 and December 31, 2017. The recorded investment in loans includes the unpaid principal balance and unamortized loan origination fees and costs, but excludes accrued interest receivable, which is not considered to be material:

March 31, 2018

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | $ 0 | $ 3 | $ 206 | $ 1 | $ 0 | $ 210 |
| Collectively evaluated for impairment | 4,352 | 2,043 | 2,350 | 2,919 | 559 | 12,223 |
| Acquired loans collectively evaluated for impairment | 52 | 16 | 45 | 4 | 0 | 117 |
| Acquired with deteriorated credit quality | 0 | 0 | 0 | 0 | 0 | 0 |
| Total ending allowance balance | $ 4,404 | $ 2,062 | $ 2,601 | $ 2,924 | $ 559 | $ 12,550 |
| | | | | | | |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | $ 537 | $ 255 | $ 4,553 | $ 65 | $ 0 | $ 5,410 |
| Loans collectively evaluated for impairment | 511,423 | 237,114 | 347,718 | 202,388 | 0 | 1,298,643 |
| Acquired loans | 126,721 | 34,425 | 119,475 | 12,943 | 0 | 293,564 |
| Acquired with deteriorated credit quality | 987 | 735 | 0 | 0 | 0 | 1,722 |
| Total ending loans balance | $ 639,668 | $ 272,529 | $ 471,746 | $ 215,396 | $ 0 | $ 1,599,339 |

December 31, 2017

| (In Thousands of Dollars) | Commercial Real Estate | Commercial | Residential Real Estate | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | $ 0 | $ 4 | $ 158 | $ 0 | $ 0 | $ 162 |
| Collectively evaluated for impairment | 4,214 | 1,993 | 2,322 | 2,844 | 675 | 12,048 |
| Acquired loans collectively evaluated for impairment | 46 | 14 | 41 | 4 | 0 | 105 |
| Acquired with deteriorated credit quality | 0 | 0 | 0 | 0 | 0 | 0 |
| Total ending allowance balance | $ 4,260 | $ 2,011 | $ 2,521 | $ 2,848 | $ 675 | $ 12,315 |
| | | | | | | |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | $ 658 | $ 260 | $ 4,559 | $ 59 | $ 0 | $ 5,536 |
| Loans collectively evaluated for impairment | 497,168 | 225,312 | 339,143 | 198,370 | 0 | 1,259,993 |
| Acquired loans | 131,926 | 38,503 | 125,182 | 14,507 | 0 | 310,118 |
| Acquired with deteriorated credit quality | 948 | 786 | 0 | 0 | 0 | 1,734 |
| Total ending loans balance | $ 630,700 | $ 264,861 | $ 468,884 | $ 212,936 | $ 0 | $ 1,577,381 |

The following tables present information related to impaired loans by class of loans as of March 31, 2018 and December 31, 2017:

| (In Thousands of Dollars) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| March 31, 2018 | | | |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | $ 536 | $ 537 | $ 0 |
| Commercial | | | |
| Commercial and industrial | 210 | 189 | 0 |
| Residential real estate | | | |
| 1-4 family residential | 2,849 | 2,630 | 0 |
| Home equity lines of credit | 331 | 319 | 0 |
| Consumer | 159 | 63 | 0 |
| Subtotal | 4,085 | 3,738 | 0 |

| | | | |
|---|---|---|---|
| With an allowance recorded: | | | |
| Commercial | | | |
| Commercial and industrial | 66 | 66 | 3 |
| Residential real estate | | | |
| 1-4 family residential | 1,473 | 1,447 | 131 |
| Home equity lines of credit | 169 | 157 | 75 |
| Consumer | 2 | 2 | 1 |
| Subtotal | 1,710 | 1,672 | 210 |
| Total | $ 5,795 | $ 5,410 | $ 210 |

16

| (In Thousands of Dollars) | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|---|---|
| December 31, 2017 | | | |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Owner occupied | $ 659 | $ 658 | $ 0 |
| Commercial | | | |
| Commercial and industrial | 214 | 192 | 0 |
| Residential real estate | | | |
| 1-4 family residential | 2,923 | 2,697 | 0 |
| Home equity lines of credit | 341 | 319 | 0 |
| Consumer | 145 | 59 | 0 |
| Subtotal | 4,282 | 3,925 | 0 |
| | | | |
| With an allowance recorded: | | | |
| Commercial | | | |
| Commercial and industrial | 68 | 68 | 4 |
| Residential real estate | | | |
| 1-4 family residential | 1,409 | 1,387 | 84 |
| Home equity lines of credit | 159 | 156 | 74 |
| Subtotal | 1,636 | 1,611 | 162 |
| Total | $ 5,918 | $ 5,536 | $ 162 |

The following tables present the average recorded investment in impaired loans by class and interest income recognized by loan class for the three month periods ended March 31, 2018 and 2017:

| | Average Recorded Investment For Three Months Ended March 31, | | Interest Income Recognized For Three Months Ended March 31, | |
|---|---|---|---|---|
| (In Thousands of Dollars) | 2018 | 2017 | 2018 | 2017 |
| With no related allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | $420 | $1,051 | $ 7 | $ 2 |
| Non-owner occupied | 0 | 226 | 0 | 0 |
| Commercial | | | | |
| Commercial and industrial | 873 | 210 | 1 | 1 |
| Residential real estate | | | | |

| | | | | |
|---|---|---|---|---|
| 1-4 family residential | 2,636 | 2,380 | 49 | 37 |
| Home equity lines of credit | 325 | 227 | 4 | 4 |
| Consumer | 63 | 74 | 3 | 3 |
| Subtotal | 4,317 | 4,168 | 64 | 47 |
| | | | | |
| With an allowance recorded: | | | | |
| Commercial real estate | | | | |
| Owner occupied | 0 | 422 | 0 | 2 |
| Non-owner occupied | 0 | 1,107 | 0 | 14 |
| Commercial | | | | |
| Commercial and industrial | 67 | 273 | 1 | 1 |
| Residential real estate | | | | |
| 1-4 family residential | 1,429 | 773 | 10 | 8 |
| Home equity lines of credit | 155 | 82 | 2 | 1 |
| Consumer | 1 | 1 | 0 | 0 |
| Subtotal | 1,652 | 2,658 | 13 | 26 |
| Total | $5,969 | $6,826 | $ 77 | $ 73 |

Cash basis interest recognized during the three month periods ended March 31, 2018 and 2017 was materially equal to interest income recognized.

17

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

The following table presents the recorded investment in nonaccrual and loans past due 90 days or more still on accrual by class of loans as of March 31, 2018 and December 31, 2017:

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| (In Thousands of Dollars) | Nonaccrual | Loans Past Due 90 Days or More Still Accruing | Nonaccrual | Loans Past Due 90 Days or More Still Accruing |
| Originated loans: | | | | |
| Commercial real estate | | | | |
| Owner occupied | $381 | $ 0 | $501 | $ 0 |
| Farmland | 41 | 0 | 45 | 0 |
| Commercial | | | | |
| Commercial and industrial | 271 | 0 | 249 | 0 |
| Agricultural | 0 | 35 | 2 | 0 |
| Residential real estate | | | | |
| 1-4 family residential | 2,730 | 300 | 2,653 | 393 |
| Home equity lines of credit | 651 | 7 | 602 | 8 |
| Consumer | | | | |
| Indirect | 405 | 183 | 457 | 361 |
| Direct | 85 | 151 | 63 | 153 |
| Other | 90 | 19 | 0 | 14 |
| Total originated loans | $4,654 | $ 695 | $4,572 | $ 929 |
| Acquired loans: | | | | |
| Commercial real estate | | | | |
| Non-owner occupied | $118 | $ 0 | $216 | $ 0 |
| Farmland | 257 | 0 | 0 | 0 |
| Commercial | | | | |
| Commercial and industrial | 926 | 59 | 943 | 19 |
| Agricultural | 5 | 0 | 9 | 0 |
| Residential real estate | | | | |
| 1-4 family residential | 795 | 66 | 613 | 69 |
| Home equity lines of credit | 167 | 0 | 170 | 0 |
| Consumer | | | | |
| Direct | 105 | 46 | 140 | 15 |
| Total acquired loans | $2,373 | $ 171 | $2,091 | $ 103 |
| Total loans | $7,027 | $ 866 | $6,663 | $ 1,032 |

18

The following tables present the aging of the recorded investment in past due loans as of March 31, 2018 and December 31, 2017 by class of loans:

| (In Thousands of Dollars) | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due and Nonaccrual | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| March 31, 2018 | | | | | | |
| Originated loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $167 | $3 | $ 381 | $551 | $146,937 | $147,488 |
| Non-owner occupied | 0 | 0 | 0 | 0 | 207,770 | 207,770 |
| Farmland | 0 | 0 | 41 | 41 | 83,657 | 83,698 |
| Other | 0 | 0 | 0 | 0 | 72,841 | 72,841 |
| Commercial | | | | | | |
| Commercial and industrial | 228 | 79 | 271 | 578 | 206,788 | 207,366 |
| Agricultural | 124 | 12 | 35 | 171 | 29,823 | 29,994 |
| Residential real estate | | | | | | |
| 1-4 family residential | 1,235 | 76 | 3,030 | 4,341 | 276,027 | 280,368 |
| Home equity lines of credit | 60 | 106 | 658 | 824 | 70,654 | 71,478 |
| Consumer | | | | | | |
| Indirect | 1,730 | 467 | 588 | 2,785 | 163,143 | 165,928 |
| Direct | 670 | 335 | 236 | 1,241 | 26,699 | 27,940 |
| Other | 122 | 25 | 109 | 256 | 8,328 | 8,584 |
| Total originated loans: | $4,336 | $1,103 | $ 5,349 | $10,788 | $1,292,667 | $1,303,455 |
| Acquired loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $24 | $0 | $ 0 | $24 | $51,180 | $51,204 |
| Non-owner occupied | 0 | 0 | 118 | 118 | 19,327 | 19,445 |
| Farmland | 78 | 0 | 257 | 335 | 45,218 | 45,553 |
| Other | 78 | 0 | 0 | 78 | 11,591 | 11,669 |
| Commercial | | | | | | |
| Commercial and industrial | 29 | 4 | 985 | 1,018 | 22,672 | 23,690 |
| Agricultural | 14 | 0 | 5 | 19 | 11,460 | 11,479 |
| Residential real estate | | | | | | |
| 1-4 family residential | 696 | 0 | 861 | 1,557 | 90,060 | 91,617 |
| Home equity lines of credit | 193 | 0 | 167 | 360 | 27,923 | 28,283 |
| Consumer | | | | | | |
| Direct | 399 | 18 | 151 | 568 | 12,269 | 12,837 |
| Other | 0 | 1 | 0 | 1 | 106 | 107 |
| Total acquired loans | $1,511 | $23 | $ 2,544 | $4,078 | $291,806 | $295,884 |
| Total loans | $5,847 | $1,126 | $ 7,893 | $14,866 | $1,584,473 | $1,599,339 |

| (In Thousands of Dollars) | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due and Nonaccrual | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| December 31, 2017 | | | | | | |
| Originated loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $4 | $340 | $ 501 | $845 | $139,081 | $139,926 |
| Non-owner occupied | 0 | 0 | 0 | 0 | 198,588 | 198,588 |
| Farmland | 0 | 0 | 45 | 45 | 70,398 | 70,443 |
| Other | 0 | 0 | 0 | 0 | 88,703 | 88,703 |
| Commercial | | | | | | |
| Commercial and industrial | 292 | 3 | 249 | 544 | 192,335 | 192,879 |
| Agricultural | 74 | 0 | 2 | 76 | 32,605 | 32,681 |
| Residential real estate | | | | | | |
| 1-4 family residential | 2,044 | 403 | 3,046 | 5,493 | 266,338 | 271,831 |
| Home equity lines of credit | 155 | 18 | 610 | 783 | 70,754 | 71,537 |
| Consumer | | | | | | |
| Indirect | 2,429 | 829 | 818 | 4,076 | 156,772 | 160,848 |
| Direct | 632 | 250 | 216 | 1,098 | 27,608 | 28,706 |
| Other | 115 | 11 | 14 | 140 | 8,736 | 8,876 |
| Total originated loans | $5,745 | $1,854 | $ 5,501 | $13,100 | $1,251,918 | $1,265,018 |
| Acquired loans: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | $0 | $0 | $ 0 | $0 | $53,051 | $53,051 |
| Non-owner occupied | 0 | 0 | 216 | 216 | 20,042 | 20,258 |
| Farmland | 454 | 0 | 0 | 454 | 47,301 | 47,755 |
| Other | 0 | 0 | 0 | 0 | 11,976 | 11,976 |
| Commercial | | | | | | |
| Commercial and industrial | 327 | 96 | 962 | 1,385 | 25,709 | 27,094 |
| Agricultural | 87 | 0 | 9 | 96 | 12,111 | 12,207 |
| Residential real estate | | | | | | |
| 1-4 family residential | 858 | 77 | 682 | 1,617 | 95,144 | 96,761 |
| Home equity lines of credit | 161 | 0 | 170 | 331 | 28,424 | 28,755 |
| Consumer | | | | | | |
| Direct | 380 | 151 | 155 | 686 | 13,692 | 14,378 |
| Other | 0 | 1 | 0 | 1 | 127 | 128 |
| Total acquired loans | $2,267 | $325 | $ 2,194 | $4,786 | $307,577 | $312,363 |
| Total loans | $8,012 | $2,179 | $ 7,695 | $17,886 | $1,559,495 | $1,577,381 |

Troubled Debt Restructurings:

Total troubled debt restructurings were $5.3 million and $5.0 million at March 31, 2018 and December 31, 2017, respectively.  The Company has allocated $75 thousand and $68 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at March 31, 2018 and December 31, 2017, respectively. There were no commitments to lend additional amounts to borrowers with loans that were classified as troubled debt restructurings at March 31, 2018 and at December 31, 2017.

During the three month period ended March 31, 2018 and 2017, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a deferral of principal and interest; or a legal concession. During the three month period ended March 31, 2018, the terms of such loans included a reduction of the stated interest rate of the loan by 1.75% and an extension of the maturity date on these and other troubled debt restructurings by 6 months. During the same three month period in 2017, the terms of such loans included a reduction of the stated interest rate of the loan by 1.89% and extensions of the maturity dates in the range of 6 to 132 months.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month periods ended March 31, 2018 and 2017:

| Three Months Ended March 31, 2018 (In thousands of Dollars) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Originated loans: | | | |
| Commercial real estate | | | |
| Owner occupied | 1 | $ 360 | $ 360 |
| Residential real estate | | | |
| 1-4 family residential | 3 | $ 43 | $ 43 |
| Home equity lines of credit | 2 | 14 | 14 |
| Indirect | 5 | 29 | 29 |
| Total originated loans | 11 | $ 446 | $ 446 |
| Acquired loans: | | | |
| Residential real estate | | | |
| 1-4 family residential | 4 | 108 | 108 |
| Total loans | 15 | $ 554 | $ 554 |

| Three Months Ended March 31, 2017 (In thousands of Dollars) | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Originated loans: | | | |
| Residential real estate | | | |
| 1-4 family residential | 6 | $ 284 | $ 287 |
| Home equity lines of credit | 5 | 94 | 94 |
| Indirect | 4 | 16 | 16 |
| Total originated loans | 15 | $ 394 | $ 397 |
| Acquired loans: | | | |
| Residential real estate | | | |
| Home equity lines of credit | 1 | 57 | 57 |
| Total loans | 16 | $ 451 | $ 454 |

There were $19 thousand and $13 thousand in charge offs and a $19 thousand and $13 thousand increase to the provision for loan losses during the three month period ended March 31, 2018 and 2017, respectively as a result of troubled debt restructurings.

There were three residential real estate loans for which there was a payment default within twelve months following the modification of the troubled debt restructuring during the three month period ended March 31, 2018. These loans were not past due at March 31, 2018. There was no provision recorded as a result of the defaults during 2018. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

There were no loans for which there was a payment default within twelve months following the modification of the troubled debt restructuring during the three month period ended March 31, 2017. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company establishes a risk rating at origination for all commercial loan and commercial real estate relationships. For relationships over $750 thousand, management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt. Management also affirms the risk ratings for the loans and leases in their respective portfolios on an annual basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of March 31, 2018 and December 31, 2017, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| (In Thousands of Dollars) | Pass | Special Mention | Sub standard | Total |
|---|---|---|---|---|
| March 31, 2018 | | | | |
| Originated loans: | | | | |
| Commercial real estate | | | | |
| Owner occupied | $ 145,393 | $ 1,023 | $ 1,072 | $ 147,488 |
| Non-owner occupied | 207,243 | 406 | 121 | |