

FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
August 08, 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 June 30, 2018

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

OHIO	34-1371693
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No)
20 South Broad Street Canfield, OH	44406
(Address of principal executive offices)	(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, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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 July 31, 2018
Common Stock, No Par Value	27,640,921 shares

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

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CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	June 30,	December 31,
(Unaudited)	2018	2017
ASSETS		
Cash and due from banks	\$ 18,021	\$ 17,785
Federal funds sold and other	58,602	39,829
TOTAL CASH AND CASH EQUIVALENTS	76,623	57,614
Securities available for sale	388,890	392,937
Equity securities	6,344	5,579
Loans held for sale	1,987	272
Loans	1,639,191	1,577,381
Less allowance for loan losses	12,764	12,315
NET LOANS	1,626,427	1,565,066
Premises and equipment, net	21,658	22,286
Goodwill	38,201	38,201
Other intangibles	6,460	7,168
Bank owned life insurance	34,318	33,877
Other assets	37,031	36,069
TOTAL ASSETS	\$ 2,237,939	\$ 2,159,069
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 420,991	\$ 412,346
Interest-bearing	1,229,346	1,192,373
TOTAL DEPOSITS	1,650,337	1,604,719
Short-term borrowings	315,951	289,565
Long-term borrowings	6,614	6,994
Other liabilities	17,527	15,717
TOTAL LIABILITIES	1,990,429	1,916,995
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 50,000,000 shares in 2018 and 35,000,000 in 2017; issued 28,179,598 in 2018 and 2017	186,931	186,903
Retained earnings	71,305	59,208
Accumulated other comprehensive income (loss)	(6,799)	596
Treasury stock, at cost; 538,677 shares in 2018 and 635,550 in 2017	(3,927)	(4,633)
TOTAL STOCKHOLDERS' EQUITY	247,510	242,074
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,237,939	\$ 2,159,069

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(In Thousands except Per Share Data)
 For the Three For the Six
 Months Ended Months Ended
 June 30, June 30, June 30, June 30,

(Unaudited)	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$19,545	\$17,402	\$37,972	\$33,885
Taxable securities	1,228	1,265	2,461	2,383
Tax exempt securities	1,380	1,170	2,711	2,241
Dividends	154	123	300	238
Federal funds sold and other interest income	167	82	312	145
TOTAL INTEREST AND DIVIDEND INCOME	22,474	20,042	43,756	38,892
INTEREST EXPENSE				
Deposits	1,723	1,117	3,134	2,031
Short-term borrowings	1,140	501	2,021	828
Long-term borrowings	49	51	93	129
TOTAL INTEREST EXPENSE	2,912	1,669	5,248	2,988
NET INTEREST INCOME	19,562	18,373	38,508	35,904
Provision for loan losses	750	950	1,525	2,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,812	17,423	36,983	33,904
NONINTEREST INCOME				
Service charges on deposit accounts	985	989	1,988	1,940
Bank owned life insurance income	219	191	441	392
Trust fees	1,740	1,523	3,547	3,201
Insurance agency commissions	713	672	1,412	1,346
Security gains (losses), including fair value changes for equity securities	27	(14)	45	(1)
Retirement plan consulting fees	465	399	844	912
Investment commissions	315	253	571	475
Net gains on sale of loans	606	891	1,093	1,498
Debit card and EFT fees	870	836	1,676	1,489
Other operating income	366	315	699	690
TOTAL NONINTEREST INCOME	6,306	6,055	12,316	11,942
NONINTEREST EXPENSES				
Salaries and employee benefits	8,828	8,853	17,566	17,140
Occupancy and equipment	1,611	1,631	3,315	3,218
State and local taxes	479	424	938	841
Professional fees	737	775	1,435	1,522
Merger related costs	0	104	25	166
Advertising	379	317	654	561
FDIC insurance	225	234	447	469
Intangible amortization	355	364	709	729
Core processing charges	794	717	1,533	1,372

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Telephone and data	238	242	475	483
Other operating expenses	1,812	2,103	3,457	3,876
TOTAL NONINTEREST EXPENSES	15,458	15,764	30,554	30,377
INCOME BEFORE INCOME TAXES	9,660	7,714	18,745	15,469
INCOME TAXES	1,587	2,004	2,946	3,976
NET INCOME	\$8,073	\$5,710	\$15,799	\$11,493
EARNINGS PER SHARE - basic and diluted	\$0.29	\$0.21	\$0.57	\$0.42

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)			
	For the Three Months Ended		For the Six Months Ended	
(Unaudited)	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
NET INCOME	\$8,073	\$5,710	\$15,799	\$11,493
Other comprehensive income:				
Net unrealized holding gains (losses) on available for sale securities	(242)	5,946	(9,128)	6,321
Reclassification adjustment for (gains) losses realized in income	(1)	14	(3)	1
Net unrealized holding gains (losses)	(243)	5,960	(9,131)	6,322
Income tax effect	38	(2,087)	1,905	(2,215)
Other comprehensive income (loss), net of tax	(205)	3,873	(7,226)	4,107
TOTAL COMPREHENSIVE INCOME	\$7,868	\$9,583	\$8,573	\$15,600

See accompanying notes

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)
	For the
	Six Months Ended
(Unaudited)	June 30, 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	734
Ending balance	186,931
RETAINED EARNINGS	
Beginning balance	59,208
Cumulative effect adjustment upon adoption of ASU 2016-01	169
Beginning balance adjusted	59,377
Net income	15,799
Dividends declared at \$.14 per share	(3,871)
Ending balance	71,305
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	(7,226)
Ending balance	(6,799)
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	\$ 247,510

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	Six Months Ended	
	June 30,	June 30,
(Unaudited)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 15,799	\$ 11,493
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,525	2,000
Depreciation and amortization	1,499	1,767
Net amortization of securities	1,544	1,706
Security (gains) losses	(45)	1
Loss on land and building sales, net	0	18
Stock compensation expense	734	577
(Gain) loss on sale of other real estate owned	(16)	(24)
Earnings on bank owned life insurance	(441)	(392)
Origination of loans held for sale	(26,026)	(32,119)
Proceeds from loans held for sale	25,404	33,389
Net gains on sale of loans	(1,093)	(1,498)
Net change in other assets and liabilities	(2,878)	(2,950)
NET CASH FROM OPERATING ACTIVITIES	16,006	13,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	20,727	22,659
Proceeds from sales of securities available for sale	2,629	54,482
Purchases of securities available for sale	(24,509)	(87,203)
Purchase of restricted stock	(735)	(892)
Loan originations and payments, net	(62,908)	(78,828)
Proceeds from sale of other real estate owned	209	354
Additions to premises and equipment	(139)	(664)
NET CASH FROM INVESTING ACTIVITIES	(64,726)	(90,092)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	45,618	16,247
Net change in short-term borrowings	26,386	90,724
Repayment of long-term borrowings	(404)	(5,417)
Cash dividends paid	(3,871)	(2,706)
Proceeds from reissuance of treasury shares	0	138
NET CASH FROM FINANCING ACTIVITIES	67,729	98,986
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,009	22,862
Beginning cash and cash equivalents	57,614	41,778
Ending cash and cash equivalents	\$ 76,623	\$ 64,640
Supplemental cash flow information:		
Interest paid	\$ 5,123	\$ 2,988

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Income taxes paid	\$4,100	\$2,500
Supplemental noncash disclosures:		
Transfer of loans to other real estate	\$22	\$84
Security purchases not settled	\$5,481	\$6,957
Issuance of stock awards	\$706	\$133

See accompanying notes

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 and western Pennsylvania. 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 June 30, 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 separate components of stockholders equity, net of tax effects. 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 begun the installation process of new software in preparation for testing 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 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 and six months ended June 30, 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 was not 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. 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 engaged 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 first 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 earnout calculation for the second of three contingent payments was completed during June of 2018 and determined that no payment was earned or due. 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 Monitor 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.

	For	
	Three Months	For Six Months
	Ended	Ended
(In thousands of dollars except per share results)	June 30, 2017	June 30, 2017
Net interest income	\$18,705	\$36,567
Net income	\$5,776	\$11,625
Basic and diluted earnings per share	\$0.21	\$0.42

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 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
June 30, 2018				
U.S. Treasury and U.S. government sponsored entities	\$ 6,810	\$ 0	\$ (153)	\$ 6,657
State and political subdivisions	201,170	1,824	(2,860)	200,134
Corporate bonds	1,207	0	(26)	1,181
Mortgage-backed securities - residential	158,515	35	(5,980)	152,570
Collateralized mortgage obligations - residential	16,313	0	(932)	15,381
Small Business Administration	13,466	0	(499)	12,967
Totals	\$ 397,481	\$ 1,859	\$ (10,450)	\$ 388,890

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(In Thousands of Dollars)	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
		Gains	Losses	
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 \$2.3 million during the three month and \$2.6 million during the six month period ended June 30, 2018. Gross gains of \$2 and \$6 thousand along with gross losses of \$1 and \$3 thousand were realized on these sales during the three and six month periods ended June 30, 2018. \$26 and \$42 thousand of unrealized gains were recognized in the income statement for equity securities during the three and six month periods as a result of adoption of ASU 2016-01. Proceeds from the sale of portfolio securities were \$11.2 million during the three month and \$54.5 million during the six month periods ended June 30, 2017. Gross gains were \$168 thousand and \$730 thousand along with gross losses of \$182 and \$731 thousand during the same three and six month periods ended June 30, 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.

(In Thousands of Dollars)	June 30, 2018	
	Amortized Cost	Fair Value
Maturity		
Within one year	\$10,884	\$10,901
One to five years	46,736	46,521
Five to ten years	128,523	128,164
Beyond ten years	23,044	22,386
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	188,294	180,918
Total	\$397,481	\$388,890

The following table summarizes the investment securities with unrealized losses at June 30, 2018 and December 31, 2017, aggregated by major security type and length of time in a continuous unrealized loss position.

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(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2018						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$3,670	\$ (83)	\$2,543	\$ (70)	\$6,213	\$ (153)
State and political subdivisions	71,567	(1,800)	25,585	(1,060)	97,152	(2,860)
Corporate bonds	805	(15)	376	(11)	1,181	(26)
Mortgage-backed securities - residential	91,490	(2,645)	59,103	(3,335)	150,593	(5,980)
Collateralized mortgage obligations - residential	1,516	(40)	13,865	(892)	15,381	(932)
Small Business Administration	5	0	12,944	(499)	12,949	(499)
Total	\$169,053	\$ (4,583)	\$114,416	\$ (5,867)	\$283,469	\$ (10,450)

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(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	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 June 30, 2018, the Company’s security portfolio consisted of 575 securities, 308 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:

	June 30,	December 31,
(In Thousands of Dollars)	2018	2017
Originated loans:		
Commercial real estate		
Owner occupied	\$ 145,923	\$ 140,321
Non-owner occupied	225,569	199,080
Farmland	94,500	70,534
Other	72,361	89,025
Commercial		
Commercial and industrial	209,361	193,347
Agricultural	32,849	32,587
Residential real estate		
1-4 family residential	290,430	272,421
Home equity lines of credit	74,951	71,507
Consumer		
Indirect	167,938	155,950
Direct	29,566	28,519
Other	9,902	8,876
Total originated loans	\$ 1,353,350	\$ 1,262,167
Acquired loans:		
Commercial real estate		
Owner occupied	\$ 49,776	\$ 53,031
Non-owner occupied	18,388	20,286
Farmland	42,985	47,754
Other	11,400	11,964
Commercial		
Commercial and industrial	23,311	27,094
Agricultural	10,839	12,206
Residential real estate		
1-4 family residential	87,569	96,759
Home equity lines of credit	26,536	28,755
Consumer		
Direct	11,587	14,378
Other	145	128
Total acquired loans	\$ 282,536	\$ 312,355
Net Deferred loan costs	3,305	2,859
Allowance for loan losses	(12,764)	(12,315)
Net loans	\$ 1,626,427	\$ 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:

	June 30, 2018	December 31, 2017
(In Thousands of Dollars)		
Commercial real estate		
Owner occupied	\$693	\$ 670
Non-owner occupied	370	387
Commercial		
Commercial and industrial	972	1,072
Total outstanding balance	\$2,035	\$ 2,129
Carrying amount, net of allowance of \$0 in 2018 and 2017	\$1,677	\$ 1,733

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
(In Thousands of Dollars)				
Beginning balance	\$151	\$228	\$170	\$247
New loans purchased	0	0	0	0
Accretion of income	(19)	(19)	(38)	(38)
Ending balance	\$132	\$209	\$132	\$209

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 and six month periods ended June 30, 2018.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and six month periods ended June 30, 2018 and 2017:

Three Months Ended June 30, 2018

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 4,404	\$ 2,062	\$ 2,601	\$ 2,924	\$ 559	\$12,550
Provision for loan losses	(96)	(61)	93	586	228	750
Loans charged off	0	(65)	(68)	(644)	0	(777)
Recoveries	31	1	25	184	0	241
Total ending allowance balance	\$ 4,339	\$ 1,937	\$ 2,651	\$ 3,050	\$ 787	\$12,764

Six Months Ended June 30, 2018

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 4,260	\$ 2,011	\$ 2,521	\$ 2,848	\$ 675	\$12,315
Provision for loan losses	46	86	168	1,113	112	1,525
Loans charged off	0	(162)	(124)	(1,273)	0	(1,559)
Recoveries	33	2	86	362	0	483
Total ending allowance balance	\$ 4,339	\$ 1,937	\$ 2,651	\$ 3,050	\$ 787	\$12,764

Three Months Ended June 30, 2017

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 3,638	\$ 1,846	\$ 2,321	\$ 2,813	\$ 701	\$11,319
Provision for loan losses	365	198	5	464	(82)	950
Loans charged off	(67)	(113)	(36)	(509)	0	(725)
Recoveries	18	5	20	159	0	202
Total ending allowance balance	\$ 3,954	\$ 1,936	\$ 2,310	\$ 2,927	\$ 619	\$11,746

Six Months Ended June 30, 2017

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 3,577	\$ 1,874	\$ 2,205	\$ 2,766	\$ 430	\$10,852
Provision for loan losses	442	215	114	1,040	189	2,000
Loans charged off	(207)	(215)	(42)	(1,204)	0	(1,668)
Recoveries	142	62	33	325	0	562
Total ending allowance balance	\$ 3,954	\$ 1,936	\$ 2,310	\$ 2,927	\$ 619	\$11,746

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 June 30, 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:

June 30, 2018

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real		Unallocated	
			Estate	Consumer		
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 6	\$ 5	\$ 239	\$ 0	\$ 0	\$250

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Collectively evaluated for impairment	4,285	1,918	2,375	3,047	787	12,412
Acquired loans collectively evaluated for impairment	48	14	37	3	0	102
Acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending allowance balance	\$ 4,339	\$ 1,937	\$ 2,651	\$ 3,050	\$ 787	\$ 12,764

Loans:

Loans individually evaluated for impairment	\$ 819	\$ 282	\$ 5,492	\$ 87	\$ 0	\$ 6,680
Loans collectively evaluated for impairment	536,661	241,648	359,716	212,947	0	1,350,972
Acquired loans	121,101	33,410	113,619	11,732	0	279,862
Acquired with deteriorated credit quality	978	699	0	0	0	1,677
Total ending loans balance	\$ 659,559	\$ 276,039	\$ 478,827	\$ 224,766	\$ 0	\$ 1,639,191

December 31, 2017

(In Thousands of Dollars)	Commercial		Residential			Unallocated	Total
	Real Estate	Commercial	Real Estate	Consumer			
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 June 30, 2018 and December 31, 2017:

(In Thousands of Dollars)	Unpaid		Allowance
	Principal	Recorded	for Loan Losses
	Balance	Investment	Allocated
June 30, 2018			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 541	\$ 522	\$ 0
Non-owner occupied	41	40	0
Commercial			
Commercial and industrial	279	207	0
Residential real estate			
1-4 family residential	3,483	2,901	0
Home equity lines of credit	342	294	0
Consumer	221	87	0

Subtotal	4,907	4,051	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	0	0	0
Non-owner occupied	0	0	0
Farmland	258	257	6
Commercial			
Commercial and industrial	75	75	5
Residential real estate			
1-4 family residential	2,151	2,141	165
Home equity lines of credit	169	156	74
Subtotal	2,653	2,629	250
Total	\$ 7,560	\$ 6,680	\$ 250

	Unpaid Principal	Recorded Investment	Allowance for Loan Losses Allocated
(In Thousands of Dollars)	Balance	Investment	Allocated
December 31, 2017			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 659	\$ 658	\$ 0
Non-owner occupied	0	0	0
Farmland	0	0	0
Commercial			
Commercial and industrial	214	192	0
Agricultural	0	0	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 real estate			
Owner occupied	0	0	0
Non-owner occupied	0	0	0
Farmland	0	0	0
Commercial			
Commercial and industrial	68	68	4
Agricultural	0	0	0
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 and six month periods ended June 30, 2018 and 2017:

(In Thousands of Dollars)	Average Recorded Investment		Interest Income Recognized For Three Months Ended June	
	For Three Months Ended June 30, 2018	2017	30, 2018	2017
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$527	\$682	\$ 8	\$ 2
Non-owner occupied	27	18	0	0
Farmland	0	17	0	0
Commercial				
Commercial and industrial	204	182	1	1
Agricultural	0	15	0	0
Residential real estate				
1-4 family residential	2,677	2,251	42	35
Home equity lines of credit	302	326	4	3
Consumer	77	105	3	4
Subtotal	3,814	3,596	58	45
With an allowance recorded:				
Commercial real estate				
Owner occupied	0	164	0	2
Non-owner occupied	0	1,092	0	14
Farmland	257	0	0	0
Commercial				
Commercial and industrial	68	72	1	1
Residential real estate				
1-4 family residential	1,949	794	9	9
Home equity lines of credit	157	84	1	1
Consumer	0	0	0	0
Subtotal	2,431	2,206	11	27
Total	\$6,245	\$5,802	\$ 69	\$ 72

	Average Recorded Investment		Interest Income Recognized For Six Months	
	For Six Months Ended June 30,		Ended June 30,	
(In Thousands of Dollars)	2018	2017	2018	2017
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$474	\$851	\$15	\$5
Non-owner occupied	14	122	0	1
Farmland	0	24	0	0
Commercial				
Commercial and industrial	538	183	2	2
Agricultural	0	21	0	0
Residential real estate				
1-4 family residential	2,657	2,315	91	72
Home equity lines of credit	314	276	8	7
Consumer	70	90	6	6
Subtotal	4,067	3,882	122	93
With an allowance recorded:				
Commercial real estate				
Owner occupied	0	166	0	4
Non-owner occupied	0	1,099	0	28
Farmland	129	126	0	0
Commercial				
Commercial and industrial	68	73	2	2
Agricultural	0	100	0	0
Residential real estate				
1-4 family residential	1,689	784	19	17
Home equity lines of credit	156	84	3	2
Consumer	0	0	0	0
Subtotal	2,042	2,432	24	53
Total	\$6,109	\$6,314	\$146	\$146

Cash basis interest recognized during the three and six month periods ended June 30, 2018 and 2017 was materially equal to interest income recognized.

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

The following table presents the recorded investment in nonaccrual and loans past due 90 days or more still on accrual by class of loans as of June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Loans Past Due 90 Days or More		Loans Past Due 90 Days or More	
(In Thousands of Dollars)	Still Nonaccruing	Still Accruing	Still Nonaccruing	Still Accruing
Originated loans:				
Commercial real estate				
Owner occupied	\$373	\$ 0	\$501	\$ 0
Non-owner occupied	0	0	0	0
Farmland	37	0	45	0
Commercial				
Commercial and industrial	254	0	249	0
Agricultural	0	8	2	0
Residential real estate				
1-4 family residential	3,332	83	2,653	393
Home equity lines of credit	627	170	602	8
Consumer				
Indirect	332	109	457	361
Direct	36	147	63	153
Other	0	14	0	14
Total originated loans	\$4,991	\$ 531	\$4,572	\$ 929
Acquired loans:				
Commercial real estate				
Owner occupied	\$0	\$ 0	\$0	\$ 0
Non-owner occupied	88	0	216	0
Farmland	257	251	0	0
Commercial				
Commercial and industrial	865	0	943	19
Agricultural	0	0	9	0
Residential real estate				
1-4 family residential	933	60	613	69
Home equity lines of credit	181	83	170	0
Consumer				
Direct	142	24	140	15
Total acquired loans	\$2,466	\$ 418	\$2,091	\$ 103
Total loans	\$7,457	\$ 949	\$6,663	\$ 1,032

The following tables present the aging of the recorded investment in past due loans as of June 30, 2018 and December 31, 2017 by class of loans:

	30-59	60-89				
	Days	Days	90 Days or More	Total		
	Past	Past	Past Due	Past	Loans Not	
(In Thousands of Dollars)	Due	Due	and Nonaccrual	Due	Past Due	Total
June 30, 2018						
Originated loans:						
Commercial real estate						
Owner occupied	\$37	\$0	\$ 373	\$410	\$145,135	\$145,545
Non-owner occupied	0	0	0	0	225,000	225,000
Farmland	388	0	37	425	93,965	94,390
Other	0	0	0	0	72,086	72,086
Commercial						
Commercial and industrial	919	27	254	1,200	207,742	208,942
Agricultural	0	0	8	8	32,940	32,948
Residential real estate						
1-4 family residential	2,114	279	3,415	5,808	283,940	289,748
Home equity lines of credit	256	0	797	1,053	73,924	74,977
Consumer						
Indirect	1,901	784	441	3,126	170,233	173,359
Direct	603	311	183	1,097	28,676	29,773
Other	32	22	14	68	9,833	9,901
Total originated loans:	\$6,250	\$1,423	\$ 5,522	\$13,195	\$1,343,474	\$1,356,669
Acquired loans:						
Commercial real estate						
Owner occupied	\$308	\$0	\$ 0	\$308	\$49,530	\$49,838
Non-owner occupied	0	0	88	88	18,229	18,317
Farmland	407	0	508	915	42,069	42,984
Other	0	0	0	0	11,399	11,399
Commercial						
Commercial and industrial	56	83	865	1,004	22,306	23,310
Agricultural	3	0	0	3	10,836	10,839
Residential real estate						
1-4 family residential	1,260	148	993	2,401	85,166	87,567
Home equity lines of credit	40	0	264	304	26,231	26,535
Consumer						
Direct	462	195	166	823	10,765	11,588
Other	0	1	0	1	144	145
Total acquired loans	\$2,536	\$427	\$ 2,884	\$5,847	\$276,675	\$282,522
Total loans	\$8,786	\$1,850	\$ 8,406	\$19,042	\$1,620,149	\$1,639,191

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	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
(In Thousands of Dollars)						
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 \$5.7 million and \$5.0 million at June 30, 2018 and December 31, 2017, respectively. The Company has allocated \$76 thousand and \$68 thousand of specific reserves to customers whose

loan terms have been modified in troubled debt restructurings at June 30, 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 June 30, 2018 and at December 31, 2017.

During the three and six month periods ended June 30, 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 reduction of the contractual monthly payment; a deferral of principal and interest; or a legal concession. During the three month period ended June 30, 2018, the terms of such loans included a reduction of the stated interest rate of the loan in the range of 1.75% and 2.50% and extensions of the maturity dates on these and other troubled debt restructurings in the range of 5 to 25 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 in the range of 0.49% and 1.49 % and an extension of the maturity date of 60 month. During the six month period ended June 30, 2018, the terms of such loans included a reduction of the stated interest rate of the loan in the range of 1.75% and 2.50% and extensions of the maturity dates on these and other troubled debt restructurings in the range of 5 to 25 months. During the same six month period in 2017, the terms of such loans included a reduction of the stated interest rate of the loan in the range of 0.49% and 1.89 % and an extension of the maturity date 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 and six month periods ended June 30, 2018 and 2017:

Three Months Ended June 30, 2018 (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	1	\$ 211	\$ 211
Indirect	9	60	60
Total originated loans	10	\$ 271	\$ 271
Acquired loans:			
Commercial real estate			
Non-owner occupied	1	42	42
Farmland	1	258	258
Commercial			
Commercial and industrial	2	31	31
Residential real estate			
1-4 family residential	1	81	81
Total acquired loans	5	\$ 412	\$ 412
Total loans	15	\$ 683	\$ 683

Six Months Ended June 30, 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	4	254	254
Home equity lines of credit	2	14	14
Indirect	14	89	89
Total originated loans	21	\$ 717	\$ 717
Acquired loans:			
Commercial real estate			
Non-owner occupied	1	42	42
Farmland	1	258	258
Commercial			
Commercial and industrial	2	31	31
Residential real estate			
1-4 family residential	5	189	189
Total acquired loans	9	\$ 520	\$ 520
Total loans	30	\$ 1,237	\$ 1,237

Three Months Ended June 30, 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	1	\$ 16	\$ 16
Home equity lines of credit	3	70	70
Indirect	10	64	64
Total originated loans	14	\$ 150	\$ 150
Acquired loans:			
Residential real estate			
1-4 family residential	2	24	24
Consumer	1	29	29
Total acquired loans	3	\$ 53	\$ 53
Total loans	17	\$ 203	\$ 203

Six Months Ended June 30, 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	7	\$ 300	\$ 303
Home equity lines of credit	8	164	164
Indirect	14	80	80
Total originated loans	29	\$ 544	\$ 547
Acquired loans:			
Residential real estate			
1-4 family residential	2	24	24
Home equity lines of credit	1	57	57
Consumer	1	29	29
Total acquired loans	4	\$ 110	\$ 110
Total loans	33	\$ 654	\$ 657

There were \$20 thousand and \$39 thousand in charge offs and a \$20 thousand and \$39 thousand increase to the provision for loan losses during the three and six month periods ended June 30, 2018, as a result of outstanding troubled debt restructurings. There were \$17 thousand and \$30 thousand in charge offs during the three and six month periods ended June 30, 2017, respectively. There was a \$17 thousand and a \$30 thousand increase to the provision during the three and six month period ended June 30, 2017, as a result of troubled debt restructuring.

There was one commercial loan, three residential real estate loans and one home equity line of credit for which there was a payment default within twelve months following the modification of the troubled debt restructuring during the three month and six month period ended June 30, 2018. The one commercial loan was past due at June 30, 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 and six month periods ended June 30, 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 June 30, 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:

		Special	Sub	
(In Thousands of Dollars)	Pass	Mention	standard	Total
June 30, 2018				
Originated loans:				
Commercial real estate				
Owner occupied	\$ 143,500	\$ 997	\$ 1,048	\$ 145,545
Non-owner occupied	224,495	389	116	225,000
Farmland	94,311	0	79	94,390
Other	71,823	0	263	72,086
Commercial				
Commercial and industrial	202,410	3,503	3,029	208,942
Agricultural	32,238	166	544	32,948
Total originated loans	\$ 768,777	\$ 5,055	\$ 5,079	\$ 778,911
Acquired loans:				
Commercial real estate				
Owner occupied	\$ 48,666	\$ 451	\$ 721	\$ 49,838

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Non-owner occupied	18,037	47	233	18,317
Farmland	38,772	1,918	2,294	42,984
Other	10,732	0	667	11,399
Commercial				
Commercial and industrial	21,487	195	1,628	