

CITIZENS & NORTHERN CORP
Form 10-Q
May 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2016**

or

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

For the transition period from _____ to _____.

Commission file number: 000-16084

CITIZENS & NORTHERN CORPORATION

(Exact name of Registrant as specified in its charter)

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PENNSYLVANIA 23-2451943
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

90-92 MAIN STREET, WELLSBORO, PA 16901

(Address of principal executive offices) (Zip code)

570-724-3411

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common Stock (\$1.00 par value) 12,048,128 Shares Outstanding on May 2, 2016

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

CITIZENS & NORTHERN CORPORATION

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CITIZENS & NORTHERN CORPORATION – FORM 10-Q**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share and Per Share Data) (Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$ 13,744	\$ 14,710
Interest-bearing	27,429	21,351
Total cash and due from banks	41,173	36,061
Available-for-sale securities, at fair value	413,606	420,290
Loans held for sale	526	280
Loans receivable	701,605	704,880
Allowance for loan losses	(7,661)	(7,889)
Loans, net	693,944	696,991
Bank-owned life insurance	19,418	20,764
Accrued interest receivable	3,900	3,768
Bank premises and equipment, net	15,376	15,406
Foreclosed assets held for sale	1,584	1,260
Deferred tax asset, net	949	3,115
Intangible asset - Core deposit intangibles	27	30
Intangible asset - Goodwill	11,942	11,942
Other assets	14,099	13,510
TOTAL ASSETS	\$ 1,216,544	\$ 1,223,417
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 216,679	\$ 211,041
Interest-bearing	739,169	724,574
Total deposits	955,848	935,615
Short-term borrowings	25,952	53,496
Long-term borrowings	38,692	38,767
Accrued interest and other liabilities	7,742	8,052
TOTAL LIABILITIES	1,028,234	1,035,930
STOCKHOLDERS' EQUITY		
	0	0

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Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at March 31, 2016 and December 31, 2015		
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2016 and 2015; issued 12,655,171 at March 31, 2016 and December 31, 2015; outstanding 12,081,030 at March 31, 2016 and 12,180,623 December 31, 2015	12,655	12,655
Paid-in capital	71,212	71,654
Retained earnings	109,901	109,454
Treasury stock, at cost; 574,141 shares at March 31, 2016 and 474,548 shares at December 31, 2015	(10,854)	(8,804)
Sub-total	182,914	184,959
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	5,347	2,493
Defined benefit plans gain	49	35
Total accumulated other comprehensive income	5,396	2,528
TOTAL STOCKHOLDERS' EQUITY	188,310	187,487
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,216,544	\$ 1,223,417

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Income****(In Thousands Except Per Share Data) (Unaudited)**

	3 Months Ended	
	March 31, 2016	March 31, 2015
INTEREST INCOME		
Interest and fees on loans	\$7,974	\$ 7,709
Interest on balances with depository institutions	24	26
Interest on loans to political subdivisions	448	349
Interest on mortgages held for sale	6	2
Income from available-for-sale securities:		
Taxable	1,555	1,974
Tax-exempt	896	1,016
Dividends	34	87
Total interest and dividend income	10,937	11,163
INTEREST EXPENSE		
Interest on deposits	479	486
Interest on short-term borrowings	62	1
Interest on long-term borrowings	363	726
Total interest expense	904	1,213
Net interest income	10,033	9,950
Provision for loan losses	368	3
Net interest income after provision for loan losses	9,665	9,947
OTHER INCOME		
Service charges on deposit accounts	1,138	1,022
Service charges and fees	94	113
Trust and financial management revenue	1,144	1,114
Brokerage revenue	173	219
Insurance commissions, fees and premiums	21	40
Interchange revenue from debit card transactions	463	474
Net gains from sale of loans	168	147
(Decrease) in fair value of servicing rights	(71)	(117)
Increase in cash surrender value of life insurance	96	97
Other operating income	464	447
Sub-total	3,690	3,556
Realized gains on available-for-sale securities, net	383	74
Total other income	4,073	3,630
OTHER EXPENSES		

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Salaries and wages	3,887	3,487
Pensions and other employee benefits	1,437	1,385
Occupancy expense, net	609	722
Furniture and equipment expense	427	454
FDIC Assessments	142	151
Pennsylvania shares tax	322	318
Professional fees	289	156
Automated teller machine and interchange expense	249	246
Software subscriptions	241	197
Other operating expense	1,469	1,417
Total other expenses	9,072	8,533
Income before income tax provision	4,666	5,044
Income tax provision	1,093	1,229
NET INCOME	\$3,573	\$ 3,815
NET INCOME PER SHARE - BASIC	\$0.29	\$ 0.31
NET INCOME PER SHARE - DILUTED	\$0.29	\$ 0.31

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Comprehensive Income****(In Thousands)**

	3 Months Ended	
	March 31, 2016	March 31, 2015
Net income	\$3,573	\$ 3,815
Unrealized gains on available-for-sale securities:		
Unrealized holding gains on available-for-sale securities	4,774	3,725
Reclassification adjustment for gains realized in income	(383)	(74)
Other comprehensive gain on available-for-sale securities	4,391	3,651
Unfunded pension and postretirement obligations:		
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive gain (loss)	26	(100)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(5)	(3)
Other comprehensive gain (loss) on unfunded retirement obligations	21	(103)
Other comprehensive income before income tax	4,412	3,548
Income tax related to other comprehensive income	(1,544)	(1,242)
Net other comprehensive income	2,868	2,306
Comprehensive income	\$6,441	\$ 6,121

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands) (Unaudited)**

	3 Months Ended	
	March 31, 2016	March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,573	\$ 3,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	368	3
Realized gains on available-for-sale securities, net	(383)	(74)
Realized loss on foreclosed assets	46	13
Depreciation expense	408	469
Accretion and amortization on securities, net	297	383
Accretion and amortization on loans and deposits, net	(4)	(5)
Decrease in fair value of servicing rights	71	117
Increase in cash surrender value of life insurance	(96)	(97)
Stock-based compensation	162	150
Amortization of core deposit intangibles	3	5
Deferred income taxes	622	440
Gains on sales of loans, net	(168)	(147)
Origination of loans for sale	(4,975)	(4,150)
Proceeds from sales of loans	4,861	4,052
Increase in accrued interest receivable and other assets	(759)	(1,752)
(Decrease) increase in accrued interest payable and other liabilities	(289)	487
Net Cash Provided by Operating Activities	3,737	3,709
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit	100	0
Purchase of certificate of deposit	(100)	0
Proceeds from sales of available-for-sale securities	8,695	861
Proceeds from calls and maturities of available-for-sale securities	17,318	19,400
Purchase of available-for-sale securities	(14,852)	(28,152)
Redemption of Federal Home Loan Bank of Pittsburgh stock	2,297	485
Purchase of Federal Home Loan Bank of Pittsburgh stock	(901)	(546)
Net decrease in loans	2,313	1,402
Purchase of premises and equipment	(378)	(367)
Return of principal on limited liability entity investments	49	54
Proceeds from sale of foreclosed assets	0	191
Net Cash Provided by (Used in) Investing Activities	14,541	(6,672)

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CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in deposits	20,233	8,645
Net (decrease) increase in short-term borrowings	(27,544)	303
Repayments of long-term borrowings	(75)	(72)
Purchase of treasury stock	(3,070)	(3,022)
Sale of treasury stock	34	279
Tax benefit from compensation plans	45	42
Common dividends paid	(2,789)	(2,829)
Net Cash (Used in) Provided by Financing Activities	(13,166)	3,346
INCREASE IN CASH AND CASH EQUIVALENTS	5,112	383
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,313	31,619
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$38,425	\$ 32,002

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$370	\$ 598
Accrued redemption of bank-owned life insurance policy	\$1,442	\$ 0
Interest paid	\$905	\$ 1,201
Income taxes paid	\$225	\$ 175

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Changes in Stockholders' Equity****(In Thousands Except Share and Per Share Data)****(Unaudited)**

	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Three Months Ended March 31, 2016								
Balance, December 31, 2015	12,655,171	474,548	\$ 12,655	\$ 71,654	\$ 109,454	\$ 2,528	\$(8,804)	\$ 187,487
Net income					3,573			3,573
Other comprehensive income, net						2,868		2,868
Cash dividends declared on common stock, \$0.26 per share					(3,165)			(3,165)
Shares issued for dividend reinvestment plan		(18,777)		24			352	376
Treasury stock purchased		154,350					(3,070)	(3,070)
Shares issued from treasury for exercise of stock options		(2,090)		(4)			38	34
Restricted stock granted		(34,199)		(635)			635	0
Forfeiture of restricted stock		309		5			(5)	0
Stock-based compensation expense				162				162
Tax benefit from dividends on restricted stock				6				6
Tax benefit from employee benefit plan					39			39
Balance, March 31, 2016	12,655,171	574,141	\$ 12,655	\$ 71,212	\$ 109,901	\$ 5,396	\$(10,854)	\$ 188,310

Three Months Ended								
March 31, 2015								
Balance, December 31, 2014	12,655,171	375,191	\$ 12,655	\$ 71,541	\$ 105,550	\$ 5,360	\$(6,744)	\$ 188,362
Net income					3,815			3,815
Other comprehensive income, net						2,306		2,306
Cash dividends declared on common stock, \$0.26 per share					(3,201)			(3,201)
Shares issued for dividend reinvestment plan		(19,239)					372	372
Treasury stock purchased		155,800					(3,022)	(3,022)
Shares issued from treasury for exercise of stock options		(16,908)		(28)			307	279
Restricted stock granted		(34,800)		(627)			627	0
Forfeiture of restricted stock		1,943		33			(33)	0
Stock-based compensation expense				150				150
Tax benefit from dividends on restricted stock				5				5
Tax benefit from employee benefit plan					37			37
Balance, March 31, 2015	12,655,171	461,987	\$ 12,655	\$ 71,074	\$ 106,201	\$ 7,666	\$(8,493)	\$ 189,103

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Notes to Unaudited Consolidated Financial Statements****1. BASIS OF INTERIM PRESENTATION**

The consolidated financial information included herein, with the exception of the consolidated balance sheet dated December 31, 2015, is unaudited. Such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows and changes in stockholders' equity for the interim periods; however, the information does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for a complete set of financial statements. Certain 2015 information has been reclassified for consistency with the 2016 presentation.

Operating results reported for the three-month ended March 31, 2016 might not be indicative of the results for the year ending December 31, 2016. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission.

2. PER SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The following data show the amounts used in computing basic and diluted net income per share. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation's common stock during the period.

	Net Income	Weighted- Average Common Shares	Earnings Per Share
Three Months Ended March 31, 2016			
Earnings per share – basic	\$3,573,000	12,155,108	\$ 0.29

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Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		198,985	
Hypothetical share repurchase at \$20.05		(178,215)	
Earnings per share – diluted	\$3,573,000	12,175,878	\$ 0.29
Three Months Ended March 31, 2015			
Earnings per share – basic	\$3,815,000	12,268,306	\$ 0.31
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		181,385	
Hypothetical share repurchase at \$19.78		(160,552)	
Earnings per share – diluted	\$3,815,000	12,289,139	\$ 0.31

Stock options that were anti-dilutive were excluded from net income per share calculations. Weighted-average common shares available from anti-dilutive instruments totaled 47,309 shares in the three-month period ended March 31, 2016 and 103,104 shares in the three-month period ended March 31, 2015.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**3. COMPREHENSIVE INCOME**

Comprehensive income is the total of (1) net income, and (2) all other changes in equity from non-stockholder sources, which are referred to as other comprehensive income. The components of other comprehensive income, and the related tax effects, are as follows:

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended March 31, 2016			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$ 4,774	\$(1,671)	\$ 3,103
Reclassification adjustment for (gains) realized in income	(383)	134	(249)
Other comprehensive income on available-for-sale securities	4,391	(1,537)	2,854
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	26	(9)	17
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(5)	2	(3)
Other comprehensive income on unfunded retirement obligations	21	(7)	14
Total other comprehensive income	\$ 4,412	\$(1,544)	\$ 2,868

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended March 31, 2015			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$ 3,725	\$(1,304)	\$ 2,421
Reclassification adjustment for (gains) realized in income	(74)	26	(48)
Other comprehensive income on available-for-sale securities	3,651	(1,278)	2,373
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	(100)	35	(65)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(3)	1	(2)

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Other comprehensive loss on unfunded retirement obligations	(103)	36	(67)
Total other comprehensive income	\$ 3,548	\$(1,242)	\$ 2,306

Changes in the components of accumulated other comprehensive income are as follows and are presented net of tax:

(In Thousands)	Unrealized Holding Gains on Securities	Unfunded Pension and Postretirement Obligations	Accumulated Other Comprehensive Income
Three Months Ended March 31, 2016			
Balance, beginning of period	\$ 2,493	\$ 35	\$ 2,528
Other comprehensive income before reclassifications	3,103	17	3,120
Amounts reclassified from accumulated other comprehensive income	(249)	(3)	(252)
Other comprehensive income	2,854	14	2,868
Balance, end of period	\$ 5,347	\$ 49	\$ 5,396

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(In Thousands)	Unrealized Holding Gains on Securities	Unfunded Pension and Postretirement Obligations	Accumulated Other Comprehensive Income
Three Months Ended March 31, 2015			
Balance, beginning of period	\$ 5,281	\$ 79	\$ 5,360
Other comprehensive income before reclassifications	2,421	(65)	2,356
Amounts reclassified from accumulated other comprehensive income	(48)	(2)	(50)
Other comprehensive income	2,373	(67)	2,306
Balance, end of period	\$ 7,654	\$ 12	\$ 7,666

Items reclassified out of each component of other comprehensive income are as follows:

For the Three Months Ended March 31, 2016

(In Thousands)

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities	\$ (383)	Realized gains on available-for-sale securities, net
	134	Income tax provision
	(249)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(8)	Pensions and other employee benefits
Actuarial loss	3	Pensions and other employee benefits
	(5)	Total before tax
	2	Income tax provision
	(3)	Net of tax
Total reclassifications for the period	\$ (252)	

For the Three Months Ended March 31, 2015

(In Thousands)

Details about Accumulated Other	Reclassified from	Affected Line Item in the Consolidated

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Comprehensive Income Components	Accumulated Other Comprehensive Income	Statements of Income
Unrealized gains and losses on available-for-sale securities	\$ (74)	Realized gains on available-for-sale securities, net
	26	Income tax provision
	(48)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(7)	Pensions and other employee benefits
Actuarial loss	4	Pensions and other employee benefits
	(3)	Total before tax
	1	Income tax provision
	(2)	Net of tax
Total reclassifications for the period	\$ (50)	

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4. CASH AND DUE FROM BANKS

Cash and due from banks at March 31, 2016 and December 31, 2015 include the following:

(In thousands)	March 31, 2016	Dec. 31, 2015
Cash and cash equivalents	\$ 38,425	\$ 33,313
Certificates of deposit	2,748	2,748
Total cash and due from banks	\$ 41,173	\$ 36,061

Certificates of deposit are issued by U.S. banks with original maturities greater than three months. Each certificate of deposit is fully FDIC-insured. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the FDIC insurance limit.

The Corporation is required to maintain reserves against deposit liabilities in the form of cash and balances with the Federal Reserve Bank of Philadelphia. The reserves are based on deposit levels, account activity, and other services provided by the Federal Reserve Bank. Required reserves were \$14,562,000 at March 31, 2016 and \$15,327,000 at December 31, 2015.

5. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation measures certain assets at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FASB ASC topic 820, “Fair Value Measurements and Disclosures” establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 – Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

The Corporation monitors and evaluates available data relating to fair value measurements on an ongoing basis and recognizes transfers among the levels of the fair value hierarchy as of the date of an event or change in circumstances that affects the valuation method chosen. Examples of such changes may include the market for a particular asset becoming active or inactive, changes in the availability of quoted prices, or changes in the availability of other market data.

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At March 31, 2016 and December 31, 2015, assets measured at fair value and the valuation methods used are as follows:

(In Thousands)	Quoted Prices in Active Markets (Level 1)	March 31, 2016		Total Fair Value
		Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Recurring fair value measurements				
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of U.S. Government agencies	\$ 0	\$10,707	\$ 0	\$10,707
Obligations of states and political subdivisions:				
Tax-exempt	0	111,959	0	111,959
Taxable	0	35,094	0	35,094
Mortgage-backed securities	0	73,243	0	73,243
Collateralized mortgage obligations, Issued by U.S. Government agencies	0	180,860	0	180,860
Collateralized debt obligations	0	7	0	7
Total debt securities	0	411,870	0	411,870
Marketable equity securities	1,736	0	0	1,736
Total available-for-sale securities	1,736	411,870	0	413,606
Servicing rights	0	0	1,261	1,261
Total recurring fair value measurements	\$ 1,736	\$411,870	\$ 1,261	\$414,867
Nonrecurring fair value measurements				
Impaired loans with a valuation allowance	\$ 0	\$0	\$ 1,420	\$1,420
Valuation allowance	0	0	(306)	(306)
Impaired loans, net	0	0	1,114	1,114
Foreclosed assets held for sale	0	0	1,584	1,584
Total nonrecurring fair value measurements	\$ 0	\$0	\$ 2,698	\$2,698

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(In Thousands)	Quoted Prices in Active Markets (Level 1)	December 31, 2015		Total Fair Value
		Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Recurring fair value measurements				
AVAILABLE-FOR-SALE SECURITIES:				
Obligations of U.S. Government agencies	\$ 0	\$ 10,483	\$ 0	\$ 10,483
Obligations of states and political subdivisions:				
Tax-exempt	0	107,757	0	107,757
Taxable	0	34,597	0	34,597
Mortgage-backed securities	0	73,343	0	73,343
Collateralized mortgage obligations, Issued by U.S. Government agencies	0	191,715	0	191,715
Collateralized debt obligations	0	9	0	9
Total debt securities	0	417,904	0	417,904
Marketable equity securities	2,386	0	0	2,386
Total available-for-sale securities	2,386	417,904	0	420,290
Servicing rights	0	0	1,296	1,296
Total recurring fair value measurements	\$ 2,386	\$ 417,904	\$ 1,296	\$ 421,586
Nonrecurring fair value measurements				
Impaired loans with a valuation allowance	\$ 0	\$ 0	\$ 1,933	\$ 1,933
Valuation allowance	0	0	(820)	(820)
Impaired loans, net	0	0	1,113	1,113
Foreclosed assets held for sale	0	0	1,260	1,260
Total nonrecurring fair value measurements	\$ 0	\$ 0	\$ 2,373	\$ 2,373

Management's evaluation and selection of valuation techniques and the unobservable inputs used in determining the fair values of assets valued using Level 3 methodologies include sensitive assumptions. Other market participants might use substantially different assumptions, which could result in calculations of fair values that would be substantially different than the amount calculated by management.

At March 31, 2016 and December 31, 2015, quantitative information regarding significant techniques and inputs used for assets measured on a recurring basis using unobservable inputs (Level 3 methodologies) are as follows:

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Asset	Fair Value at 3/31/16 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 3/31/16
Servicing rights	\$ 1,261	Discounted cash flow	Discount rate	10.00 % Rate used through modeling period
			Loan prepayment speeds	168.00% Weighted-average PSA
			Servicing fees	0.25 % of loan balances
				4.00 % of payments are late
				5.00 % late fees assessed
			Servicing costs	\$1.94 Miscellaneous fees per account per month
				\$6.00 Monthly servicing cost per account
				\$24.00 Additional monthly servicing cost per loan on loans more than 30 days delinquent
				1.50 % of loans more than 30 days delinquent
				3.00 % annual increase in servicing costs

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Asset	Fair Value at 12/31/15 (In Thousands)	Valuation Technique	Unobservable Input(s)	Method or Value As of 12/31/15
Servicing rights	\$ 1,296	Discounted cash flow	Discount rate	10.00 % Rate used through modeling period
			Loan prepayment speeds	146.00% Weighted-average PSA
			Servicing fees	0.25 % of loan balances
				4.00 % of payments are late
				5.00 % late fees assessed
			Servicing costs	\$ 1.94 Miscellaneous fees per account per month
				\$ 6.00 Monthly servicing cost per account
				\$ 24.00 Additional monthly servicing cost per loan on loans more than 30 days delinquent
				1.50 % of loans more than 30 days delinquent
				3.00 % annual increase in servicing costs

The fair value of servicing rights is affected by expected future interest rates. Increases (decreases) in future expected interest rates tend to increase (decrease) the fair value of the Corporation's servicing rights because of changes in expected prepayment behavior by the borrowers on the underlying loans.

Following is a reconciliation of activity for Level 3 assets measured at fair value on a recurring basis:

(In Thousands)	3 Months Ended	
	March 31, 2016	March 31, 2015
Servicing rights balance, beginning of period	\$ 1,296	\$ 1,281
Issuances of servicing rights	36	31
Unrealized losses included in earnings	(71)	(117)
Service rights balance, end of period	\$ 1,261	\$ 1,195

Loans are classified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Foreclosed assets held for sale consist of real estate acquired by foreclosure. For impaired commercial loans secured by real estate and foreclosed assets held for sale, estimated fair values are determined

primarily using values from third-party appraisals. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

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At March 31, 2016 and December 31, 2015, quantitative information regarding significant techniques and inputs used for nonrecurring fair value measurements using unobservable inputs (Level 3 methodologies) are as follows:

(In Thousands, Except Percentages)	Balance at 3/31/16	Valuation Allowance at 3/31/16	Fair Value at 3/31/16	Valuation Technique	Unobservable Inputs	Value at 3/31/16 (Weighted Average)
Asset						
Impaired loans:						
Commercial:						
Commercial loans secured by real estate	\$ 311	\$ 96	\$ 215	Sales comparison	Discount to appraised value	47 %
Commercial and industrial	599	158	441	Sales comparison	Discount to appraised value	52 %
Loans secured by farmland	510	52	458	Sales comparison	Discount to appraised value	49 %
Total impaired loans	\$ 1,420	\$ 306	\$ 1,114			
Foreclosed assets held for sale - real estate:						
Residential (1-4 family)	\$ 883	\$ 0	\$ 883	Sales comparison	Discount to apprais	