CNB FINANCIAL CORP/PA
Form 10-K
March 07, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
F O R M 1 0 – K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018 Commission File Number 0-13396
CNB FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1450605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 South Second Street
P.O. Box 42
Clearfield, Pennsylvania 16830
(Address of principal executive office)
Registrant's telephone number, including area code (814) 765-9621
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12 (g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes ý No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes ý No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes £ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ý Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer ý Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes ý No

Aggregate market value of the common stock held by nonaffiliates of the registrant as of June 30, 2018:
$433,388,637
The number of shares outstanding of the registrant's common stock as of March 4, 2019:
15,239,527 shares
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be held on April 16, 2019 are incorporated by reference into Part III of this report.

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PART I.

ITEM 1. BUSINESS

CNB Financial Corporation (the "Corporation") is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). It was incorporated under the laws of the Commonwealth of Pennsylvania in 1983 for the purpose of engaging in the business of a financial holding company. On April 26, 1984, the Corporation acquired all of the outstanding capital stock of County National Bank, a national banking chartered institution. In December 2006, County National Bank changed its name to CNB Bank (the "Bank"), and became a state bank chartered in Pennsylvania and subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. In October 2013, the Corporation acquired FC Banc Corp. and its subsidiary, The Farmers Citizens Bank. In July 2016, the Corporation acquired Lake National Bank.

In addition to the Bank, the Corporation has four other subsidiaries. CNB Securities Corporation is incorporated in Delaware and currently maintains investments in debt and equity securities. CNB Insurance Agency, incorporated in Pennsylvania, provides for the sale of nonproprietary annuities and other insurance products. CNB Risk Management, Inc. is a Delaware-based captive insurance company which insures against certain risks unique to the operations of the Corporation and its subsidiaries and for which insurance may not be currently available or economically feasible in today's insurance marketplace. Holiday Financial Services Corporation, incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics.

CNB Bank

The Bank was originally chartered as a national bank in 1934 and is now a a Pennsylvania-chartered bank. In February 2017, the Bank completed construction of a full-service branch location in Duncansville, Pennsylvania and concurrently closed its loan production office in Hollidaysburg, Pennsylvania. The full-service branch is being operated as part of the CNB Bank franchise.

ERIEBANK, a division of the Bank, began operations in 2005. In July 2016, the Corporation acquired Lake National Bank, which operated two full-service branches in Mentor, Ohio, approximately 20 miles east of Cleveland, Ohio. The Bank is continuing to operate these two branch locations within its ERIEBANK franchise. In February 2017, the Corporation completed construction of a full-service branch location in Ashtabula, Ohio, which is also operating within the ERIEBANK franchise.

In October 2013, the Corporation acquired FC Banc Corp. and its subsidiary, Farmers Citizens Bank. In 2017, the Bank sold its Mount Hope branch of FCBank to First Federal Community Bank of Dover, Ohio. The Bank currently operates seven branch locations as FCBank, a division of the Bank, with its headquarters in Worthington, Ohio.

In 2016, the Bank received regulatory approval to conduct business in the state of New York as BankOnBuffalo, a division of the Bank. The Bank opened a loan production office in Buffalo, New York in May 2016, which was closed in February 2017 concurrent opening of a full-service location in downtown Buffalo in February 2017. The Bank opened full-service locations in Williamsville, New York and Orchard Park, New York in the fourth quarter of 2017, and a full-service location in Niagara Falls, New York in the third quarter of 2018.

The Bank has 42 full-service branch offices located in various communities in its market area. The Bank's primary market area includes the Pennsylvania counties of Blair, Cambria, Cameron, Centre, Clearfield, Crawford, Elk, Indiana, Jefferson, and McKean. ERIEBANK, a division of the Bank, operates in the Pennsylvania counties of Crawford, Erie, and Warren and the Ohio counties of Ashtabula, Cuyahoga, and Lake. FCBank, a division of the

Bank, operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Delaware, and Franklin. BankOnBuffalo, a division of the Bank, operates in Erie and Niagara counties, New York.

The Bank is a full-service bank engaging in a full range of banking activities and services for individual, business, governmental and institutional customers. These activities and services principally include checking, savings, and time deposit accounts; real estate, commercial, industrial, residential and consumer loans; and a variety of other specialized financial services. The Bank's Private Client Solutions division offers a full range of client services, including private banking and wealth and asset management.

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Holiday Financial Services Corporation

In 2005, the Corporation entered the consumer discount loan and finance business, which is conducted through a wholly-owned subsidiary, Holiday Financial Services Corporation ("Holiday"). Holiday currently has nine offices within the Corporation's market area.

Competition

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

Supervision and Regulation

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

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

Bank Holding Company Regulation

As a bank holding company that controls a Pennsylvania state-chartered bank, the Corporation is subject to regulation and examination by the Pennsylvania Department of Banking and the Federal Reserve Board. We are required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may

require pursuant to the BHC Act, and applicable regulations. For instance, the BHC Act requires each bank holding company to obtain the approval of the Federal Reserve Board before it may acquire substantially all the assets of any bank, or before it may acquire ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of any class of voting shares of such bank. Such a transaction may also require approval of the Pennsylvania Department of Banking.

Pursuant to provisions of the BHC Act and regulations promulgated by the Federal Reserve Board thereunder, the Corporation may only engage in, or own companies that engage in, activities deemed by the Federal Reserve Board to be permissible for bank holding companies or financial holding companies. Activities permissible for bank holding companies are those that are so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. Permissible activities for financial holding companies include those “so closely related to banking as to be a proper incident thereto” as well as certain additional activities deemed “financial in nature or incidental to such financial activity” or complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of the depository institution or the financial system.

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The Corporation must obtain permission from or provide notice to the Federal Reserve Board prior to engaging in most new business activities.

Regulation of CNB Bank

Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the activities of a bank with respect to mergers and acquisitions, the establishment of branches, management practices, and numerous other aspects of banking operations.

Source of Strength Doctrine

Under Section 616 of the Dodd-Frank Act, a bank holding company is required to serve as a source of financial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve Board's policy that in serving as a source of financial and managerial strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility, and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve Board to be an unsafe and unsound banking practice, a violation of the Federal Reserve Board regulations, or both. This doctrine is commonly known as the "source of strength" doctrine.

Identity Theft

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

Capital Adequacy

The Capital Rules adopted in 2013 by the Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency, generally implement the Basel Committee on Banking Supervision's capital framework, referred to as Basel III, for strengthening international capital standards. The Capital Rules revise the definitions and components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets. The risk-weighting categories in the Capital Rules are standardized and include a risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of assets.

The Capital Rules, among other things:

- revise minimum capital requirements and adjust prompt corrective action thresholds;
-

- revise the components of regulatory capital, including adding a new minimum common equity Tier 1 capital ratio of 4.5% of risk-weighted assets and increasing the minimum Tier 1 capital ratio requirement from 4% to 6%;
- retain the existing risk-based capital treatment for 1-4 family residential mortgage exposures;
- permit most banking organizations to retain, through a one-time permanent election, the existing capital treatment for accumulated other comprehensive income;
- implement the capital conservation buffer beginning January 1, 2016, which was phased in incrementally until it reached 2.5% of risk-weighted assets, in addition to the minimum common equity Tier 1, Tier 1 and total capital ratios, on January 1, 2019;
- require a minimum leverage ratio of 4%;
- require a total capital ratio of 8%;

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- increase capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments;
- require the deduction of mortgage servicing assets and deferred tax assets that exceed 10% of common equity Tier 1 capital in each category and 15% of common equity Tier 1 capital in the aggregate; and
- remove references to credit ratings consistent with the Dodd-Frank Act and establish due diligence requirements for securitization exposures.

Compliance with the Capital Rules was required beginning January 1, 2015, for most banking organizations including the Corporation, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. The Corporation implemented the Capital Rules on January 1, 2015, and continues to exceed all estimated well-capitalized regulatory requirements on a fully phased-in basis.

In November 2017, the Federal Reserve Board finalized a rule extending the currently applicable capital rules for mortgage servicing assists and certain other items for non-advanced approaches institutions. This rule is in effect pending the comment period and review of the general proposal to simplify the Capital Rules for non-advanced approaches institutions.

Dividend Restrictions

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

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

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

Prompt Corrective Action and Safety and Soundness

Under applicable “prompt corrective action” (“PCA”) statutes and regulations, depository institutions are placed into one of five capital categories, ranging from “well capitalized” to “critically undercapitalized.” The PCA statute and regulations provide for progressively more stringent supervisory measures as an insured depository institution’s capital category declines. An institution that is not well capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. An undercapitalized depository institution must submit an acceptable restoration plan to the appropriate federal banking agency. One requisite element of such a plan is that the institution’s parent holding company must guarantee compliance by the institution

with the plan, subject to certain limitations.

At December 31, 2018, the Bank qualified as “well capitalized” under applicable regulatory capital standards.

Bank holding companies and insured depository institutions may also be subject to potential enforcement actions of varying levels of severity by the federal banking agencies for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency, or term of a written agreement with the agency. In more serious cases, enforcement actions may include the issuance of directives to increase capital; the issuance of formal and informal agreements; the imposition of civil monetary penalties; the issuance of a cease and desist order that can be judicially enforced; the issuance of removal and prohibition orders against officers, directors, and other institution affiliated parties; the termination of the insured depository institution’s deposit insurance; the appointment of a conservator or receiver for the insured depository institution; and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the FDIC, as receiver, would be harmed if such equitable relief was not granted.

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Community Reinvestment Act

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

Restrictions on Transactions with Affiliates and Insiders

The Bank is subject to the restrictions of Sections 23A and 23B of the Federal Reserve Act and the implementing Regulation W. The Bank's "affiliates" for purposes of these sections include, among other potential entities, the Corporation and its direct subsidiaries. Section 23A requires that loans or extensions of credit by the Bank to an affiliate, purchases by the Bank of securities issued by an affiliate, purchases by the Bank of assets from an affiliate (except as may be exempted by order or regulation), the Bank’s acceptance of securities or debt obligations issued by an affiliate as collateral for a loan or extension of the credit to a third party, the Bank’s acceptance of a guarantee or letter of credit on behalf of an affiliate, a transaction with an affiliate involving the borrowing or lending of securities to the extent the transaction causes the Bank to have credit exposure to the affiliate, and a derivative transaction with an affiliate, to the extent the Bank will have credit exposure to the affiliate (collectively, “Covered Transactions”) be on terms and conditions consistent with safe and sound banking practices. Section 23A also imposes quantitative restrictions on the amount of and collateralization requirements on such transactions. Section 23B requires that all Covered Transactions and certain other transactions, including the sale of securities or other assets by the Bank to an affiliate and the payment of money or the furnishing of services by the Bank to an affiliate, be on terms comparable to those prevailing for similar transactions with nonaffiliates.

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

Deposit Insurance and Premiums

The deposits of the Bank are insured up to applicable limits per insured depositor by the FDIC. The standard maximum deposit insurance amount is $250,000 per depositor, per insured depository institution, per ownership category, in accordance with applicable FDIC regulations.

The FDIC uses a risk-based assessment system that imposes insurance premiums based on a risk matrix that takes into account the bank’s capital level and supervisory rating. The base for insurance assessments is the average consolidated total assets less tangible equity capital of a financial institution. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. FDIC deposit insurance expense also includes deposit insurance assessments and FICO assessments related to outstanding FICO bonds.

Financial Privacy and Data Security

The Corporation is subject to federal laws, including the Gramm-Leach-Bliley Act and certain state laws containing consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to affiliated and non-affiliated third parties and limit the reuse of

certain consumer information received from non-affiliated financial institutions. These provisions require notice of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain nonpublic personal information to affiliates or non-affiliated third parties by means of opt-out or opt-in authorizations.

The Gramm-Leach-Bliley Act requires that financial institutions implement comprehensive written information security programs that include administrative, technical, and physical safeguards to protect consumer information. Federal banking agencies have also adopted guidelines for establishing information security standards and programs to protect such information. Further, pursuant to interpretive guidance issued under the Gramm-Leach-Bliley Act and certain state laws, financial institutions are required to notify customers of security breaches that result in unauthorized access to their nonpublic personal information.

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Incentive Compensation

The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including the Corporation and the Bank, with at least $1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

The Dodd-Frank Act also requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called “golden parachute” payments in connection with approvals of mergers and acquisitions.

USA PATRIOT Act

Under Title III of the USA PATRIOT Act, all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions, and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the Gramm-Leach-Bliley Act and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign “shell banks” and persons from jurisdictions of particular concern. The primary federal banking agencies and the Secretary of the Treasury have adopted regulations to implement several of these provisions. All financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act. The Bank has in place a Bank Secrecy Act and USA PATRIOT Act compliance program and engages in very few transactions of any kind with foreign financial institutions or foreign persons.

Office of Foreign Assets Control Regulation

The United States government has imposed economic sanctions that affect transactions with designated foreign countries, nationals, and others. These are typically known as the “OFAC” rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control. The Office of Foreign Assets Control-administered sanctions targeting countries take many different forms. Generally, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from the Office of Foreign Assets Control. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other Federal Laws and Regulations

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

- Truth-In-Lending Act, which governs disclosures of credit terms to consumer borrowers;
- Truth-in-Savings Act, which governs disclosures of the terms of deposit accounts to consumers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to regulators to enable determinations as to whether financial institutions are fulfilling their obligations to meet the home lending needs of the communities they serve and not discriminating in their lending practices;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, sex or other prohibited factors in extending credit;

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- Real Estate Settlement Procedures Act, which imposes requirements relating to real estate settlements, including requiring lenders to disclose certain information regarding the nature and cost of real estate settlement services;
- Fair Credit Reporting Act, covering numerous areas relating to certain types of consumer information and identity theft;
- Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require that financial institutions provide privacy policies to consumers, to allow customers to “opt out” of certain sharing of their nonpublic personal information, and to safeguard sensitive and confidential customer information;
- Electronic Funds Transfer Act, which is a consumer protection law regarding electronic fund transfers; and
- Numerous other federal and state laws and regulations, including those related to consumer protection and bank operations.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, as amended, including publicly-held financial holding companies such as the Corporation. In particular, the Sarbanes-Oxley Act establishes: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws.

Governmental Policies

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

Other Legislative Initiatives

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

Employees

As of December 31, 2018, the Corporation had a total of 556 employees, of which 505 were full time and 51 were part time.

Available Information

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

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

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The SEC maintains an internet site that contains reports, proxy statements and other information about electronic filers such as the Corporation. The site is available at http://www.sec.gov.

ITEM 1A. RISK FACTORS

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

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

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

- The Corporation's and the Bank's ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- The Corporation faces increased regulation of the banking and financial services industry. Compliance with such regulation may increase its costs and limit its ability to pursue business opportunities.
- Market developments may affect customer confidence levels and may cause increases in loan delinquencies and default rates, which management expects would adversely impact the Bank's charge-offs and provision for loan losses.
- Market developments may adversely affect the Bank's securities portfolio by causing other-than-temporary-impairments, prompting write-downs and securities losses.
- Competition in banking and financial services industry could intensify as a result of the consolidation of financial services companies in connection with current market conditions.

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

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

Collateral values and the financial performance of borrowers may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates and debt service levels, changes in oil and gas prices, changes in monetary and fiscal policies of the federal government, widespread disease, terrorist activity, environmental contamination and other external events, which are beyond the control of the Bank. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards might create the impression that a loan is adequately collateralized when in fact it is not. Although the Bank may acquire any real estate or other assets that secure defaulted loans through foreclosures or other

similar remedies, the amounts owed under the defaulted loans may exceed the value of the assets acquired.

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

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

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

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

The Bank's interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of its balance sheet and off-balance sheet instruments as they relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on earnings, is determined through the use of static gap analysis and earnings simulation modeling under multiple interest rate scenarios. Management's objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in the Bank's balance sheet in order to preserve the sensitivity of net interest income to actual or potential changes in interest rates. At December 31, 2018, the interest rate sensitivity position was asset sensitive in the short-term. For further information on risk relating to interest rates, refer to Part I, Item 7a, "Quantitative and Qualitative Disclosures about Market Risk," herein.

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

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

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

The Corporation's investment securities portfolio is subject to credit risk, market risk, and liquidity risk, and declines in value in its investment securities portfolio may require it to record other-than-temporary impairment charges that

could have a material adverse effect on its results of operations and financial condition.

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

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

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

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

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

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

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

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

The Corporation competes with an ever-increasing array of financial service providers. As noted above, as a financial holding company and state-chartered financial institution, respectively, the Corporation and the Bank are subject to extensive regulation and supervision, including, in many cases, regulations that limit the type and scope of activities. The non-bank financial service providers that compete with the Corporation and the Bank may not be subject to such extensive regulation, supervision, and tax burden. Competition from nationwide banks, as well as local institutions, is strong in the Corporation’s markets.

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

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

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

The Corporation, primarily through the Bank, depends on its ability to continuously process, record and monitor a large number of customer transactions and customer, public and regulatory expectations regarding operational and information security have increased over time. Accordingly, its and its subsidiaries' operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Although the Corporation has business continuity plans and other safeguards in place, disruptions or failures in the physical infrastructure or operating systems that support its businesses and customers, or cyber attacks or security breaches of the networks, systems or devices on which customers' personal information is stored and that customers use to access the Corporation's and its subsidiaries products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect the Corporation's results of operations or financial condition.
Although to date the Corporation has not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that it or its subsidiaries will not suffer such losses in the future. The Corporation's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our plans to continue to implement our Internet banking and mobile banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served. As a result, cybersecurity and the continued development and enhancement of the Corporation's controls, processes and practices designed to protect its and its subsidiaries systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Corporation. As
cyber threats continue to evolve, the Corporation may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities.

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

Liquidity is the ability to meet cash flow obligations as they come due and cash flow needs on a timely basis and at a reasonable cost. The liquidity of the Bank is used to make loans and to repay deposit and borrowing liabilities as they become due, or are demanded by customers and creditors. Many factors affect the Bank's ability to meet liquidity

needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and standing in the marketplace, and general economic conditions.

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

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

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

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

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

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

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

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

There are 11 FHLB banks, including the FHLB of Pittsburgh, in the FHLB system. The 11 FHLB banks are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB bank cannot meet its obligations to pay its share of the system’s debt, other FHLB banks can be called upon to make the payment. The Corporation cannot assure you, however, that the FHLB system will be able to meet these obligations.

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

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

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

The Corporation could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank’s borrowers are otherwise contractually required to pay under existing loan contracts.

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

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

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

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

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

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

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

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

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

For example, the Corporation’s amended and restated articles of incorporation require the affirmative vote of 66% of the outstanding shares entitled to vote to effect a business combination. In addition, the Corporation’s amended and restated articles of incorporation, subject to the limitations prescribed in such articles and subject to limitations prescribed by Pennsylvania law, authorize the Corporation’s Board of Directors, from time to time by resolution and without further shareholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof. As a result of its broad discretion with respect to the creation and issuance of preferred stock without shareholder approval, the Corporation's Board of Directors could adversely affect the voting power and other rights of the holders of common stock and, by issuing shares of preferred stock with certain voting, conversion and/or redemption rights, could discourage any attempt to obtain control of the Corporation.

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

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

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

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

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

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

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

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

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

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

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Replacement of the LIBOR benchmark interest rate could adversely affect our business, financial condition, and results of operations.

In 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates the London Interbank Offered Rate ("LIBOR"), announced that the FCA intends to stop persuading or compelling banks to submit the rates required to calculate LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We have a significant number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR, or any changes or reforms to the determination or supervision of LIBOR, could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us, could create considerable costs and additional risk and could have an adverse impact on our overall financial condition or results of operations. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The headquarters of the Corporation and the Bank are located at 1 South Second Street, Clearfield, Pennsylvania, in a building owned by the Corporation. The Bank operates 42 full-service offices. Of these 42 offices, 24 are owned and 17 are leased from independent owners and one is leased from the Corporation. Holiday has nine full-service offices, of which eight are leased from independent owners and one is leased from the Corporation. There are no encumbrances on the offices owned and the rental expense on the leased property is immaterial in relation to operating expenses. The initial lease terms range from three to twenty-nine years.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Global Select Market of The NASDAQ Stock Market LLC ("NASDAQ") under the symbol "CCNE." As of December 31, 2018, the number of shareholders of record of the Corporation's common stock was 4,097.

Issuer Purchases of Equity Securities

The following table provides information with respect to any purchase of shares of the Corporation's common stock made by or on behalf of the Corporation for the quarter ended December 31, 2018.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet Be Purchased Under the Plans or Programs	
October 1 – 31, 2018	37,830	$ 26.41	37,830	332,030	(1)
November 1 – 30, 2018	0	$ 0	0	332,030	(1)
December 1 – 31, 2018	42,299	$ 23.61	42,299	289,731	(1)

(1) The Corporation's new stock repurchase program, which was announced on November 12, 2014, authorizes the repurchase of up to 500,000 shares of common stock. The program will remain in effect until fully utilized or until modified, suspended or terminated. As of December 31, 2018, there were 289,731 shares remaining in the program.

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Share Return Performance

Set forth below is a chart comparing the Corporation's cumulative return to stockholders against the cumulative return of the NASDAQ Composite Index and a peer group index of banking organizations for the five-year period commencing December 31, 2013 and ending December 31, 2018.

CNB Financial Corporation

	Period Ending					
Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
CNB Financial Corporation	100.00	101.10	102.34	156.99	158.23	141.68
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
SNL Bank NASDAQ	100.00	103.57	111.80	155.02	163.20	137.56

Source : S&P Global Market Intelligence
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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and results of Operations" and the consolidated financial statements as of December 31, 2018 and 2017 and for the three years ended December 31, 2018, 2017, and 2016, and the related notes included elsewhere in this Annual Report on Form 10-K.

The selected financial information as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014 has been derived from our audited historical financial statements.

	Year ended December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
INTEREST AND DIVIDEND INCOME:					
Loans including fees	$118,193	$97,005	$81,209	$71,814	$69,512
Securities:					
Taxable	9,921	8,165	9,134	10,977	13,257
Tax-exempt	2,739	2,983	3,390	3,778	3,713
Dividends	1,017	721	582	609	400
Total interest and dividend income	131,870	108,874	94,315	87,178	86,882
INTEREST EXPENSE:					
Deposits	17,228	9,312	8,470	8,498	8,300
Borrowed funds	5,856	4,021	2,981	3,222	3,241
Subordinated debentures	3,866	4,032	1,577	751	746
Total interest expense	26,950	17,365	13,028	12,471	12,287
NET INTEREST INCOME	104,920	91,509	81,287	74,707	74,595
PROVISION FOR LOAN LOSSES	6,072	6,655	4,149	2,560	3,840
Net interest income after provision for loan losses	98,848	84,854	77,138	72,147	70,755
NON-INTEREST INCOME	20,723	21,435	17,691	14,799	14,321
NON-INTEREST EXPENSES	79,342	70,037	67,118	56,457	52,688
INCOME BEFORE INCOME TAXES	40,229	36,252	27,711	30,489	32,388
INCOME TAX EXPENSE	6,510	12,392	7,171	8,292	9,314
NET INCOME	$33,719	$23,860	$20,540	$22,197	$23,074
PER SHARE DATA:					
Basic	$2.21	$1.57	$1.42	$1.54	$1.60
Fully diluted	2.21	1.57	1.42	1.54	1.60
Dividends declared	0.67	0.66	0.66	0.66	0.66
Book value per share at year end	17.28	15.98	14.64	13.87	13.09
AT END OF PERIOD:					
Total assets	$3,221,521	$2,768,773	$2,573,821	$2,285,136	$2,189,213
Securities	524,649	416,859	500,693	550,619	690,225
Loans, net of unearned discount	2,474,557	2,145,959	1,873,536	1,577,798	1,355,289
Allowance for loan losses	19,704	19,693	16,330	16,737	17,373
Deposits	2,610,786	2,167,815	2,017,522	1,815,053	1,847,079
FHLB and other borrowings	245,117	257,359	237,004	104,243	75,715
Subordinated debentures	70,620	70,620	70,620	20,620	20,620
Deposits held for sale	0	0	6,456	0	0
Shareholders’ equity	262,830	243,910	211,784	201,913	188,548
KEY RATIOS:					
Return on average assets	1.12 %	0.89 %	0.85 %	0.99 %	1.07 %

Return on average equity	13.46	%	9.97	%	9.69	%	11.23	%	12.76	%
Loan to deposit ratio	94.78	%	98.99	%	92.86	%	86.93	%	73.37	%
Dividend payout ratio	30.35	%	42.31	%	46.48	%	42.86	%	41.26	%
Average equity to average assets ratio	8.33	%	8.93	%	8.76	%	8.86	%	8.37	%

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

The following discussion and analysis of the consolidated financial statements of the Corporation is presented to provide insight into management’s assessment of financial results. The Corporation’s subsidiary, the Bank, provides financial services to individuals and businesses primarily within its primary market area of the Pennsylvania counties of Blair, Cambria, Cameron, Centre, Clearfield, Crawford, Elk, Indiana, Jefferson, and McKean. ERIEBANK, a division of the Bank, operates in the Pennsylvania counties of Crawford, Erie, and Warren and in the Ohio counties of Ashtabula, Cuyahoga, and Lake. FCBank, a division of the Bank, operates in the Ohio counties of Crawford, Richland, Ashland, Wayne, Marion, Morrow, Knox, Delaware, and Franklin. BankOnBuffalo, a division of the Bank, operates in Erie and Niagara counties, New York. The Bank is subject to regulation, supervision and examination by the Pennsylvania State Department of Banking as well as the FDIC.

CNB Securities Corporation is incorporated in Delaware and currently maintains investments in debt and equity securities. CNB Insurance Agency, incorporated in Pennsylvania, provides for the sale of nonproprietary annuities and other insurance products. CNB Risk Management, Inc., incorporated in Delaware, is a captive insurance company that insures against certain risks unique to the operations of the Corporation and its subsidiaries and for which insurance may not be currently available or economically feasible in today's insurance marketplace. Holiday , incorporated in Pennsylvania, offers small balance unsecured loans and secured loans, primarily collateralized by automobiles and equipment, to borrowers with higher risk characteristics.

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

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

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

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

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

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Forward-Looking Statements

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

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

General Overview

Management looks to return on average equity, earnings per share, asset quality, and other metrics to measure the performance of the Corporation. The interest rate environment will continue to play an important role in the future earnings of the Corporation. In order to address the flattening yield curve and highly competitive environment, the Corporation has remained focused on disciplined loan pricing to sustain a strong net interest margin.

Non-interest costs are expected to increase with the growth of the Corporation; however, management's growth strategies are also expected to result in an increase in earning assets as well as enhanced non-interest income, which is expected to more than offset increases in non-interest expenses in 2019 and beyond. While past results are not an indication of future earnings, management believes the Corporation is well positioned to sustain core earnings during 2019. All dollar amounts are stated in thousands, except share and per share data and other amounts as indicated.

Financial Condition

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

	2018 Balance	$ Change vs. prior year	% Change vs. prior year	2017 Balance	$ Change vs. prior year	% Change vs. prior year	2016 Balance
Total assets	$3,221.5	$ 452.7	16.4 %	$2,768.8	$ 195.0	7.6 %	$2,573.8
Total loans, net	2,454.9	328.6	15.5 %	2,126.3	269.1	14.5 %	1,857.2
Total securities	524.6	107.7	25.8 %	416.9	(83.8)	(16.7)%	500.7
Total deposits	2,610.8	443.0	20.4 %	2,167.8	150.3	7.4 %	2,017.5
Total shareholders’ equity	262.8	18.9	7.7 %	243.9	32.1	15.2 %	211.8

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The following table presents average balances of certain measures of our financial condition and net interest margin for the specified years.

	12/31/2018			12/31/2017			12/31/2016		
	Average Balance	Annual Rate	Interest Inc./ Exp.	Average Balance	Annual Rate	Interest Inc./ Exp.	Average Balance	Annual Rate	Interest Inc./ Exp.
Assets									
Securities:									
Taxable (1)	$365,784	2.67 %	$9,921	$318,481	2.58 %	$8,165	$380,534	2.44 %	$9,134
Tax-Exempt (1, 2)	97,412	3.42 %	3,326	109,630	4.18 %	4,493	124,360	4.24 %	5,103
Equity Securities (1, 2)	29,773	3.93 %	1,170	26,270	3.72 %	976	19,277	4.09 %	788
Total Securities	492,969	2.89 %	14,417	454,381	3.02 %	13,634	524,171	2.93 %	15,025
Loans									
Commercial (2)	820,547	4.98 %	40,846	645,357	4.93 %	31,844	522,345	4.63 %	24,201
Mortgage (2)	1,420,562	4.88 %	69,338	1,296,548	4.54 %	58,899	1,110,287	4.54 %	50,437
Consumer	85,776	10.16 %	8,717	81,383	9.42 %	7,668	84,592	9.14 %	7,730
Total Loans (3)	2,326,885	5.11 %	118,901	2,023,288	4.86 %	98,411	1,717,224	4.80 %	82,368
Total earning assets	2,819,854	4.72 %	$133,318	2,477,669	4.53 %	$112,045	2,241,395	4.37 %	$97,393
Non-Interest Earning Assets									
Cash & Due From Banks	33,345			28,204			29,869		
Premises & Equipment	49,986			50,377			43,758		
Other Assets	126,630			138,754			121,554		
Allowance for Loan Losses	(21,511)			(17,473)			(16,336)		
Total Non-Interest Earning Assets	188,450			199,862			178,845		
Total Assets	$3,008,304			$2,677,531			$2,420,240		
Liabilities and Shareholders’ Equity									
Interest Bearing Deposits									
Demand – interest bearing	$582,289	0.38 %	$2,209	$550,922	0.36 %	$1,976	$513,445	0.35 %	$1,801
Savings	1,077,209	0.85 %	9,184	953,960	0.49 %	4,643	954,010	0.46 %	4,429
Time	383,531	1.52 %	5,835	252,176	1.07 %	2,693	214,684	1.04 %	2,240
Total interest bearing deposits	2,043,029	0.84 %	17,228	1,757,058	0.53 %	9,312	1,682,139	0.50 %	8,470
Short-term borrowings	37,363	1.91 %	713	122,758	1.09 %	1,344	99,075	0.57 %	565
Long-term borrowings	250,242	2.06 %	5,143	158,782	1.69 %	2,677	81,937	2.95 %	2,416
Subordinated Debentures	70,620	5.47 %	3,866	70,620	5.71 %	4,032	33,120	4.76 %	1,577
Total interest bearing liabilities	2,401,254	1.12 %	$26,950	2,109,218	0.82 %	$17,365	1,896,271	0.69 %	$13,028
Demand – non-interest bearing	327,014			300,942			267,876		
Other liabilities	29,545			28,148			44,035		
Total Liabilities	2,757,813			2,438,308			2,208,182		
Shareholders’ Equity	250,491			239,223			212,058		
Total Liabilities and Shareholders’ Equity	$3,008,304			$2,677,531			$2,420,240		

Interest Income/Earning Assets	4.72	%	$133,318	4.53	%	$112,045	4.37	%	$97,393
Interest Expense/Interest Bearing Liabilities	1.12	%	26,950	0.82	%	17,365	0.69	%	13,028
Net Interest Spread	3.60	%	$106,368	3.71	%	$94,680	3.68	%	$84,365
Interest Income/Earning Assets	4.72	%	$133,318	4.53	%	$112,045	4.37	%	$97,393
Interest Expense/Earning Assets	0.96	%	26,950	0.71	%	17,365	0.59	%	13,028
Net Interest Margin	3.76	%	$106,368	3.82	%	$94,680	3.78	%	$84,365

1. Includes unamortized discounts and premiums. Average balance is computed using the amortized cost of securities. The average yield has been computed using the historical amortized cost average balance for available for sale securities.
2. Average yields and interest income are stated on a fully taxable equivalent basis using the Corporation's marginal federal income tax rate of 21% for the year end December 31, 2018 and 35% for the years ended December 31, 2017 and 2016. Interest income has been increased by $1,448, $3,171, and $3,078 for the years ended December 31, 2018, 2017, and 2016, respectively, as a result of the effect of tax-exempt interest and dividends earned by the Corporation.

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3. Average outstanding includes the average balance outstanding of all nonaccrual loans. Loans consist of the average of total loans less average unearned income. Included in loan interest income is loan fees of $3,722, $3,328, and $3,170 for the years ended December 31, 2018, 2017, and 2016, respectively.

The following table presents the change in net interest income for the years specified.

Net Interest Income Rate-Volume Variance	For Twelve Months Ended December 31, 2018 over (under) 2017 Due to Change In (1)			For Twelve Months Ended December 31, 2017 over (under) 2016 Due to Change In (1)		
	Volume	Rate	Net	Volume	Rate	Net
Assets						
Securities:						
Taxable	$1,432	$324	$1,756	$(1,392)	$423	$(969)
Tax-Exempt (2)	(427)	(740)	(1,167)	(541)	(69)	(610)
Equity Securities (2)	132	62	194	286	(98)	188
Total Securities	1,137	(354)	783	(1,647)	256	(1,391)
Loans						
Commercial (2)	8,609	393	9,002	5,699	1,944	7,643
Mortgage (2)	5,595	4,844	10,439	8,461	1	8,462
Consumer	412	637	1,049	(293)	231	(62)
Total Loans	14,616	5,874	20,490	13,867	2,176	16,043
Total Earning Assets	$15,753	$5,520	$21,273	$12,220	$2,432	$14,652
Liabilities and Shareholders' Equity						
Interest Bearing Deposits						
Demand – Interest Bearing	$120	$113	$233	$131	$44	$175
Savings	635	3,906	4,541	0	214	214
Time	1,411	1,731	3,142	391	62	453
Total Interest Bearing Deposits	2,166	5,750	7,916	522	320	842
Short-Term Borrowings	(937)	306	(631)	135	644	779
Long-Term Borrowings	1,552	914	2,466	2,266	(2,005)	261
Subordinated Debentures	0	(166)	(166)	1,786	669	2,455
Total Interest Bearing Liabilities	$2,781	$6,804	$9,585	$4,709	$(372)	$4,337
Change in Net Interest Income	$12,972	$(1,284)	$11,688	$7,511	$2,804	$10,315

1. The change in interest due to both volume and rate have been allocated entirely to volume changes.
2. Changes in interest income on tax-exempt securities and loans are presented on a fully taxable-equivalent basis, using the Corporation's marginal federal income tax rate of 21% for the year ended December 31, 2018 and 35% for the year ended December 31, 2017.

Cash and Cash Equivalents

Cash and cash equivalents totaled $45.6 million at December 31, 2018 compared to $35.3 million at December 31, 2017. Cash and cash equivalents fluctuate based on the timing and amount of liquidity events that occur in the normal course of business.

Management believes the liquidity needs of the Corporation are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, Federal Home Loan Bank financing, and the portions of the securities and loan portfolios that mature within one year. The Corporation expects that these sources of funds will enable it to meet cash obligations and off-balance sheet commitments as they come due.

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Securities

Securities available for sale and trading securities totaled $524.6 million and $416.9 million at December 31, 2018 and 2017, respectively. The Corporation’s objective is to maintain the securities portfolio at a size that ranges between 15% and 20% of total assets in order to appropriately balance the earnings and liquidity that the portfolio provides. As of December 31, 2018 and 2017, the securities portfolio as a percentage of total assets was 16.3% and 15.1%, respectively. Note 4 to the consolidated financial statements provides more detail concerning the composition of the Corporation’s securities portfolio and the process for evaluating securities for other-than-temporary impairment.
The following table sets forth the carrying value of our securities available-for-sale portfolio at year-end December 31, 2018, December 31, 2017, and December 31, 2016.

	December 31, 2018				December 31, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities Available for Sale												
U.S. Government Sponsored Entities	$134,010	$254	$(1,570)	$132,694	$108,578	$478	$(908)	$108,148	$139,823	$1,107	$(579)	$140,35
State and Political Subdivisions	134,662	1,942	(573)	136,031	134,428	3,609	(314)	137,723	153,492	4,194	(649)	157,037
Residential and multi-family mortgage	209,126	500	(3,573)	206,053	111,214	304	(1,882)	109,636	136,807	551	(2,382)	134,976
Corporate notes and bonds	12,356	22	(601)	11,777	17,610	52	(462)	17,200	18,299	77	(962)	17,414
Pooled trust preferred	0	0	0	0	0	0	0	0	800	1,249	0	2,049
Pooled SBA	30,163	135	(924)	29,374	36,260	355	(575)	36,040	43,450	505	(918)	43,037
Other	1,020	0	(86)	934	1,020	0	(58)	962	1,020	0	(49)	971
	$521,337	$2,853	$(7,327)	$516,863	$409,110	$4,798	$(4,199)	$409,709	$493,691	$7,683	$(5,539)	$495,83

The following table sets forth the maturities of investment securities in our available-for-sale portfolio as of December 31, 2018.

Maturity Distribution of Investment Securities
December 31, 2018

Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Pooled SBA, Residential and Multi-Family Mortgage and Commercial Mortgage
$ Amt.	Yield (1)	$ Amt.	Yield (1)	$ Amt.	Yield (1)	$ Amt.	Yield (1)	$ Amt.

										Yield (1)
Securities Available for Sale (2)										
U.S. Government Sponsored Entities	$19,900	2.57 %	$86,067	2.15 %	$26,727	3.00 %				
State and Political Subdivisions	28,694	3.79 %	58,021	3.75 %	44,379	4.04 %	$4,937	4.21 %		
Corporate notes and bonds	9,409	2.78 %	2,023	4.21 %	345	6.36 %				
Pooled SBA									$29,374	2.69%
Residential and multi-family mortgage									206,053	2.79%
Other					934	2.65 %				
Total	$58,003	3.21 %	$146,111	2.81 %	$72,385	3.65 %	$4,937	4.21 %	$235,427	2.78%

(1) The weighted average yields are based on market value and effective yields weighted for the scheduled maturity with tax-exempt securities adjusted to a taxable-equivalent basis using a tax rate of 21%.

(2) The portfolio contains no holdings of a single issuer that exceeds 10% of shareholders’ equity other than the US Treasury and governmental sponsored entities.

The Corporation generally buys into the market over time and does not attempt to “time” its transactions. In doing this, the highs and lows of the market are averaged into the portfolio and the overall effect of different rate environments is minimized.

The Corporation monitors the earnings performance and the effectiveness of the liquidity of the securities portfolio on a regular basis through meetings of the Asset/Liability Committee of the Corporation’s Board of Directors (“ALCO”). The ALCO also reviews and manages interest rate risk for the Corporation. Through active balance sheet management and analysis of the securities portfolio, a sufficient level of liquidity is maintained to satisfy depositor requirements and various credit needs of our customers.

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Loans

As detailed in the table below, at December 31, 2018, the Corporation had $2.5 billion in loans outstanding, net of unearned discount, an increase of $328.6 million, or 15%, since December 31, 2017.

	2018	2017	2016	2015	2014
Commercial, industrial and agricultural	$916,297	$704,606	$567,800	$475,364	$428,458
Commercial mortgages	697,776	644,597	574,826	448,179	352,752
Residential real estate	771,309	713,347	652,883	574,225	502,317
Consumer	86,035	80,193	74,816	78,345	69,648
Credit cards	7,623	6,753	6,046	5,201	5,233
Overdrafts	308	352	595	1,040	1,188
Gross loans	2,479,348	2,149,848	1,876,966	1,582,354	1,359,596
Less: unearned income	4,791	3,889	3,430	4,556	4,307
Total loans net of unearned	$2,474,557	$2,145,959	$1,873,536	$1,577,798	$1,355,289

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

The Corporation expects strong loan growth in 2019 as it continues its planned expansion within the Buffalo, New York market and expands commercial lending relationships in its Pennsylvania and Ohio markets.
The below table discusses loan maturities and sensitivities to interest rates.

	December 31, 2018			
	One Year or Less	One Through Five Years	Over Five Years	Total Gross Loans
Commercial, industrial and agricultural				
Loans With Fixed Interest Rate	$14,153	$ 93,695	$ 155,551	$ 263,399
Loans With Floating Interest Rate	25,877	78,883	548,138	652,898
	$40,030	$ 172,578	$ 703,689	$ 916,297

Loan Concentration

The Corporation monitors loan concentrations by individual industries in order to track potential risk exposures resulting from industry related downturns. At December 31, 2018, no concentration existed within our commercial or real estate loan portfolio that exceeded 10% of the total loans.

Loan Quality

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

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The following table presents information concerning loan delinquency and other nonperforming assets at December 31, 2018, 2017, 2016, 2015, and 2014:

	2018	2017	2016	2015	2014
Nonaccrual loans	$17,239	$19,232	$15,329	$12,159	$9,190
Accrual loans greater than 90 days past due	890	664	10	105	213
Total nonperforming loans	18,129	19,896	15,339	12,264	9,403
Other real estate owned	418	710	1,015	654	806
Total nonperforming assets	$18,547	$20,606	$16,354	$12,918	$10,209
Loans modified in a troubled debt restructuring (TDR):					
Performing TDR loans	$8,201	$8,344	$8,710	$9,304	$14,771
Nonperforming TDR loans *	6,425	8,959	3,120	5,637	3,887
Total TDR loans	$14,626	$17,303	$11,830	$14,941	$18,658
Total loans, net of unearned income	$2,474,557	$2,145,959	$1,873,536	$1,577,798	$1,355,289
Nonperforming loans as a percentage of loans, net	0.73 %	0.93 %	0.82 %	0.78 %	0.69 %
Total assets	$3,221,521	$2,768,773	$2,573,821	$2,285,136	$2,189,213
Nonperforming assets as a percentage of total assets	0.58 %	0.72 %	0.64 %	0.57 %	0.47 %

* - Nonperforming TDR loans are also included in the balance of nonaccrual loans in the previous table.

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

Allowance for Loan Losses

The allowance for loan losses is established by provisions for losses in the loan portfolio as well as overdrafts in deposit accounts. These provisions are charged against current income. Loans and overdrafts deemed not collectible are charged off against the allowance while any subsequent collections are recorded as recoveries and increase the allowance. The provision for loan losses reflects the amount deemed appropriate by management to establish an adequate reserve for probable incurred losses. Management’s judgment is based on the evaluation of individual loans, the overall risk characteristics of various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

In determining the allocation of the allowance for loan losses, the Corporation considers economic trends, historical patterns and specific credit reviews.
With regard to the credit reviews, a “watchlist” is evaluated on a monthly basis to determine potential commercial losses. The "watchlist" comprises of all credits risk rated special mention, substandard and doubtful. Consumer and mortgage loans are allocated using historical loss experience.

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The following table presents activity within the allowance for loan losses during the years ended December 31, 2018, 2017, 2016, 2015, and 2014:

	2018	2017	2016	2015	2014
Balance at beginning of period	$19,693	$16,330	$16,737	$17,373	$16,234
Charge-offs:					
Commercial, industrial, and agricultural	(253)	(544)	(601)	(307)	(618)
Commercial mortgages	(3,337)	(116)	(201)	(486)	(50)
Residential real estate	(315)	(466)	(499)	(632)	(436)
Consumer	(2,279)	(2,555)	(3,324)	(1,956)	(1,744)
Credit cards	(90)	(144)	(96)	(116)	(78)
Overdrafts	(319)	(252)	(240)	(221)	(256)
	(6,593)	(4,077)	(4,961)	(3,718)	(3,182)
Recoveries:					
Commercial, industrial, and agricultural	171	235	89	267	1
Commercial mortgages	30	197	8	52	210
Residential real estate	67	78	93	8	41
Consumer	141	161	122	96	93
Credit cards	33	27	22	14	25
Overdrafts	90	87	71	85	111
	532	785	405	522	481
Net charge-offs	(6,061)	(3,292)	(4,556)	(3,196)	(2,701)
Provision for loan losses	6,072	6,655	4,149	2,560	3,840
Balance at end of period	$19,704	$19,693	$16,330	$16,737	$17,373
Loans, net of unearned income	$2,474,557	$2,145,959	$1,873,536	$1,577,798	$1,355,289
Allowance to net loans	0.80%	0.92%	0.87%	1.06%	1.28%
Percentage of net charge-offs during the period to average loans outstanding	0.26%	0.16%	0.27%	0.22%	0.21%

The adequacy of the allowance for loan losses is subject to a formal analysis by the Credit Administration and Finance Departments of the Corporation. As part of the formal analysis, delinquencies and losses are monitored monthly. The loan portfolio is divided into several categories in order to better analyze the entire pool. First is a selection of classified loans that is given a specific reserve. The remaining loans are pooled, by category, into these segments:

Reviewed
- Commercial, industrial, and agricultural
- Commercial mortgages

Homogeneous
- Residential real estate
- Consumer
- Credit cards
- Overdrafts

The reviewed loan pools are further segregated into four categories: special mention, substandard, doubtful, and pass rated. Historical loss factors are calculated for each pool, excluding overdrafts, based on the previous eight quarters of experience. The homogeneous pools are evaluated by analyzing the historical loss factors from the most previous eight quarter ends.

The historical loss factors for both the reviewed and homogeneous pools are adjusted based on these six qualitative factors:

- levels of and trends in delinquencies, nonaccrual loans, and classified loans;
- trends in volume and terms of loans;
- effects of any changes in lending policies and procedures;
- experience, ability and depth of management;
- national and local economic trends and conditions; and

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• concentrations of credit.

The methodology described above was created using the experience of the Corporation's management team, guidance from the regulatory agencies, expertise of a third-party loan review provider, and discussions with peers. The resulting factors are applied to the pool balances in order to estimate the probable risk of loss within each pool. Prudent business practices dictate that the level of the allowance, as well as corresponding charges to the provision for loan losses, should be commensurate with identified areas of risk within the loan portfolio and the attendant risks inherent therein. The quality of the credit risk management function and the overall administration of this vital segment of the Corporation's assets are critical to the ongoing success of the Corporation.

The previously mentioned analysis considered numerous historical and other factors to analyze the adequacy of the allowance and charges against the provision for loan losses. Management paid special attention to a section of the analysis that compared and plotted the actual level of the allowance against the aggregate amount of loans adversely classified in order to compute the estimated probable losses associated with those loans. By noting the "spread" at that time, as well as prior periods, management can evaluate the current adequacy of the allowance as well as evaluate trends that may be developing. The volume and composition of the Corporation's loan portfolio continue to reflect growth in commercial credits including commercial real estate loans.

As mentioned in the "Loans" section of this analysis, management considers commercial lending to be a competitive advantage and continues to focus on this area as part of its strategic growth initiatives. However, management recognizes and considers the fact that risk is more pronounced in these types of credits and is, to a greater degree than with other loans, driven by the economic environment in which the debtor's business operates.

As a result of the application of these procedures, the allocation of the allowance for loan losses was as follows at December 31, 2018, 2017, 2016, 2015 and 2014:

	2018		2017		2016		2015		2014	
	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category	Amount	% of Loans in each Category
Commercial, industrial, and agricultural	$7,341	36.96 %	$6,160	32.77 %	$5,428	30.25 %	$6,035	30.25 %	$7,114	30.04 %
Commercial mortgages	7,490	28.14 %	9,007	29.98 %	6,753	30.63 %	5,605	30.63 %	5,310	28.32 %
Residential real estate	2,156	31.11 %	2,033	33.18 %	1,653	34.78 %	2,475	34.78 %	2,479	36.29 %
Consumer	2,377	3.47 %	2,179	3.73 %	2,215	3.99 %	2,371	3.99 %	2,205	4.95 %
Credit Cards	103	0.31 %	120	0.31 %	93	0.32 %	90	0.32 %	71	0.33 %
Overdrafts	237	0.01 %	194	0.02 %	188	0.03 %	161	0.03 %	194	0.07 %
Total	$19,704	100.00 %	$19,693	100.00 %	$16,330	100.00 %	$16,737	100.00 %	$17,373	100.00 %

Throughout 2018, the Corporation evaluated its provision and allowance for loan losses in light of changes in reserves required for impaired loans, changes in nonperforming loans, and growth in loans outstanding. Note 5 to the consolidated financial statements provides further disclosure of loan balances by portfolio segment as of December 31, 2018 and 2017, as well as the nature and scope of loans modified in a troubled debt restructuring during 2018 and 2017 and the related effect on the provision and allowance for loan losses.

During the year ended December 31, 2018, the Corporation recorded a provision for loan losses of $6.1 million, as compared to a provision for loan losses of $6.7 million for the year ended December 31, 2017. Net chargeoffs during the year ended December 31, 2018 were $6.1 million, compared to net chargeoffs of $3.3 million during the year ended December 31, 2017, and the ratio of net chargeoffs to average loans was 0.26% and 0.16% for the years ended December 31, 2018 and 2017, respectively.

The Bank's net chargeoffs totaled $4.2 million and $1.1 million during the years ended December 31, 2018 and 2017, or 0.18% and 0.06%, respectively, of average Bank loans. Holiday, The Bank's consumer discount company, recorded net chargeoffs totaling $1.9 million and $2.2 million during the years ended December 31, 2018 and 2017, respectively.

In 2018, a commercial real estate loan that was impaired at December 31, 2017 experienced further deterioration in the financial condition of the borrower, resulting in the Corporation recording an additional provision for loan losses of $1.9 million during the year ended December 31, 2018. During 2018, the Bank further analyzed the ultimate collectability of the principal amount due and recorded a partial chargeoff of the principal balance in the amount of $3.3 million. As of December 31, 2018, the book balance of this impaired loan was $2.7 million and the specific allowance recorded was $2.4 million.

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Management believes that both its 2018 provision and allowance for loan losses were reasonable and adequate to absorb probable incurred losses in its portfolio at December 31, 2018.

Premises and Equipment

During the years ended December 31, 2018 and 2017, the Corporation invested $3.1 million and $5.2 million, respectively, in its physical infrastructure through the purchase of land, buildings, and equipment. In 2018, the Corporation substantially completed leasehold improvements of a full-service banking facility in Buffalo, New York that also houses the BankOnBuffalo leadership and administrative teams. The Corporation also invested in leasehold improvements for a temporary BankOnBuffalo branch in Niagara Falls, New York. Finally, additional office space was constructed in at the main office of ERIEBANK in 2018.

Bank Owned Life Insurance

The Corporation has periodically purchased Bank Owned Life Insurance (“BOLI”). The policies cover executive officers and a select group of other employees with the Bank being named as beneficiary. Earnings from BOLI assist the Corporation in offsetting its benefit costs. No BOLI was purchased during the year ended December 31, 2018, and BOLI of $10.0 million was purchased during the year ended December 31, 2017.

Funding Sources

The following table sets forth the average balances of and the average rates paid on deposits for the period indicated.

	Year Ended December 31,					
	2018		2017		2016	
	Average Amount	Annual Rate	Average Amount	Annual Rate	Average Amount	Annual Rate
Demand – Non-Interest Bearing	$327,014		$300,942		$267,876	
Demand – Interest Bearing	582,289	0.38 %	550,922	0.36 %	513,445	0.35 %
Savings Deposits	1,077,209	0.85 %	953,960	0.49 %	954,010	0.46 %
Time Deposits	383,531	1.52 %	252,176	1.07 %	214,684	1.04 %
Total	$2,370,043		$2,058,000		$1,950,015	

The maturity of certificates of deposits and other time deposits in denominations of $100,000 or more as of December 31, 2018 is as follows:

Three months or less	$61,292
Greater than three months and through twelve months	30,477
Greater than one year and through three years	93,249
Greater than three years	41,597
Total	$226,615

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

	2018	Percentage change 2018 vs. 2017	2017	Percentage change 2017 vs. 2016	2016
Demand, Non interest bearing	$356,797	10.9%	$321,858	11.0%	$289,922
Demand, Interest bearing	600,046	6.1%	565,399	4.1%	543,388
Savings deposits	1,258,506	37.5%	915,587	(4.0)%	953,438
Time deposits	395,437	8.3%	364,971	58.2%	230,774
Total	$2,610,786	20.4%	$2,167,815	7.4%	$2,017,522

In 2018, the Corporation was strategically focused on core deposit gathering resulting in new deposit inflow, primarily in savings deposits, which increased $342.9 million. During the year of 2017, the Corporation ran time deposit specials resulting in the both new deposit inflow and a transfer from savings balances.

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

Shareholders' Equity and Capital Ratios and Metrics

The Corporation's capital continues to provide a base for profitable growth. In 2018, the Corporation earned $33.7 million and declared dividends of $10.2 million, resulting in a dividend payout ratio of 30.4% of net income.

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

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

The Corporation's capital ratios and book value per common share at December 31, 2018 and 2017 are as follows:

	December 31, 2018		December 31, 2017	
Total risk-based capital ratio	13.21	%	14.32	%
Tier 1 capital ratio	10.33	%	10.97	%
Common equity tier 1 ratio	9.50	%	10.00	%
Leverage ratio	7.87	%	8.45	%
Tangible common equity/tangible assets (1)	7.02	%	7.46	%
Book value per share	$ 17.28		$ 15.98	
Tangible book value per share (1)	$ 14.69		$ 13.33	

(1) Tangible common equity, tangible assets and tangible book value per share are non-GAAP financial measures calculated using GAAP amounts. Tangible common equity is calculated by excluding the balance of goodwill and other intangible assets from the calculation of stockholders' equity. Tangible assets is calculated by excluding the balance of goodwill and other intangible assets from the calculation of total assets. Tangible book value per share is calculated by dividing tangible common equity by the number of shares outstanding. The Corporation believes that these non-GAAP financial measures provide information to investors that is useful in understanding its financial condition. Because not all companies use the same calculation of tangible common equity and tangible assets, this presentation may not be comparable to other similarly titled measures calculated by other companies. A reconciliation of these non-GAAP financial measures is provided below.

	December 31, 2018	December 31, 2017
Shareholders' equity	$262,830	$243,910
Less goodwill	38,730	38,730
Less core deposit intangible	727	1,625
Tangible common equity	$223,373	$203,555
Total assets	$3,221,521	$2,768,773
Less goodwill	38,730	38,730

Less core deposit intangible	727	1,625
Tangible assets	$3,182,064	$2,728,418
Ending shares outstanding	15,207,281	15,264,740
Tangible book value per share	$14.69	$13.33
Tangible common equity/tangible assets	7.02 %	7.46 %

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Liquidity

Liquidity measures an organization's ability to meet its cash obligations as they come due. The consolidated statements of cash flows included in the accompanying financial statements provide analysis of the Corporation's cash and cash equivalents and the sources and uses of cash. Additionally, the portion of the loan portfolio that matures within one year and securities with maturities within one year in the investment portfolio are considered part of the Corporation's liquid assets. Liquidity is monitored by both management and the Board's ALCO, which establishes and monitors ranges of acceptable liquidity. Also, the Bank is a member of FHLB, which provides the Bank with a total borrowing line of approximately $769.3 million, with approximately $317.6 million available at December 31, 2018. Management believes that the Corporation's current liquidity position is acceptable.

Results of Operations
Year Ended December 31, 2018 vs. Year Ended December 31, 2017

Overview of the Income Statement

The Corporation had net income of $33.7 million for 2018 compared to $23.9 million for 2017. Net interest income increased $13.4 million, or 14.7%, and non-interest income decreased $0.7 million, or 3.3%. The provision for loan losses decreased by $0.6 million, or 8.8%, and non-interest expenses increased by $9.3 million, or 13.3%. The earnings per diluted share were $2.21 in 2018 and $1.57 in 2017. The return on assets and the return on equity for 2018 were 1.12% and 13.46% as compared to 0.89% and 9.97% for 2017. The impact of the reduction in the federal corporate income tax rate to 21.0%, effective January 1, 2018, resulted in a $3.0 million income tax expense in 2017 related to the reduction in the carrying value of the net deferred tax asset.

Interest Income and Expense

Net interest margin on a fully tax equivalent basis was 3.76% and 3.82% for the years ended December 31, 2018 and 2017, respectively. The yield on earning assets increased 19 basis points to 4.72% for the year ended December 31, 2018 from 4.53% for the year ended December 31, 2017. The cost of interest-bearing liabilities increased 30 basis points to 1.12% for the year ended December 31, 2018 from 0.82% for the year ended December 31, 2017.

Provision for Loan Losses

The Corporation recorded a provision for loan losses of $6.1 million in 2018 compared to $6.7 million in 2017. Net loan charge-offs were $6.1 million during the year ended December 31, 2018 compared to $3.3 million during the year ended December 31, 2017. As disclosed in "Allowance for Loan Losses" above, the Corporation recorded the provision for loan losses based on management's evaluation of impaired loans and consideration of trends in criticized and classified loans and historical loan losses.

Management believes the charges to the provision in 2018 are appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of December 31, 2018.

Non-Interest Income

There were no net realized gains on available-for-sale securities during the year ended December 31, 2018 and net realized gains on available-for-sale securities were $1.5 million during the year ended December 31, 2017. which included gains on the sale of two structured pooled trusted preferred securities of $1.4 million. In addition, the Corporation realized a gain on the sale of a branch in the second quarter of 2017 of $536 thousand. Excluding the effects of securities transactions and the gain on sale of a branch, non-interest income was $20.7 million for the year

ended December 31, 2018, compared to $19.4 million for the year ended December 31, 2017.

As a result of the Corporation's continued focus on growing its Private Client Solutions division, wealth and asset management revenues were $4.2 million for the year ended December 31, 2018, an increase of 12.0% from $3.7 million for the year ended December 31, 2017. In addition, as a result of its organic deposit growth, the Corporation experienced an increase in service charges in deposit accounts of 19.8% for the year ended December 31, 2018 compared to the year ended December 31, 2017. Similarly, other service charges and fees increased $379 thousand, or 15.4%, during 2018 compared to 2017. Net income attributable to investments in Small Business Investment Companies was $788 thousand during the year ended December 31, 2018 compared to $235 thousand during the year ended December 31, 2017, which is reported as a component of other non-interest income. Finally, due to declines in equity markets in 2018, net realized and unrealized gains (losses) on trading securities decreased $1.3 million in 2018 compared to 2017.

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Non-Interest Expense

Total non-interest expenses were $79.3 million and $70.0 million for the years ended December 31, 2018 and 2017, respectively. Salaries and benefits expense increased $5.8 million, or 16.2%, during the year ended December 31, 2018 compared to the year ended December 31, 2017. As of December 31, 2018, the Corporation had 537 full-time equivalent staff, compared to 512 full-time equivalent staff as of December 31, 2017, an increase of 4.9%. In addition, as a result of the Corporation exceeding certain growth and profitability targets used in calculating incentive compensation, incentive compensation expense increased by $2.2 million when compared to 2017. The remainder of the increase in non-interest expenses is primarily a result of the Corporation's continued growth. Total households serviced at December 31, 2018 were 63,920, compared to 59,051 households at December 31, 2017, an increase of 8.2%. The ratio of non-interest expenses to average assets was 2.64% and 2.62% during the years ended December 31, 2018 and 2017, respectively.

Year Ended December 31, 2017 vs. Year Ended December 31, 2016

Overview of the Income Statement

The Corporation had net income of $23.9 million for 2017 compared to $20.5 million for 2016. Net interest income increased $10.2 million, or 12.6%, and non-interest income increased $3.7 million, or 21.2%. The provision for loan losses increased by $2.5 million, or 60.4%, and non-interest expenses increased by $2.9 million, or 4.3%. The earnings per diluted share were $1.57 in 2017 and $1.42 in 2016. The return on assets and the return on equity for 2017 were 0.89% and 9.97% as compared to 0.85% and 9.69% for 2016.

Interest Income and Expense

Net interest margin on a fully tax equivalent basis was 3.82% and 3.78% for the years ended December 31, 2017 and 2016, respectively.

As described in "Funding Sources" above, the Corporation issued $50 million of subordinated debt on September 30, 2016. The interest expense on this subordinated debt was $3.2 million for 2017 compared to $783 thousand for 2016.

Provision for Loan Losses

The Corporation recorded a provision for loan losses of $6.7 million in 2017 compared to $4.1 million in 2016. Net loan charge-offs were $3.3 million during the year ended December 31, 2017 compared to $4.6 million during the year ended December 31, 2016. As disclosed in the Allowance for Loan Losses section of Management's Discussion and Analysis, the Corporation recorded the provision for loan losses based on management's evaluation of impaired loans and consideration of trends in criticized and classified loans and historical loan losses.

Management believes the charges to the provision in 2017 are appropriate and the allowance for loan losses is adequate to absorb probable incurred losses in our portfolio as of December 31, 2017.

Non-Interest Income
Excluding the effects of securities transactions, non-interest income was $19.0 million for the year ended December 31, 2017, compared to $16.2 million for the year ended December 31, 2016. Net realized gains on available-for-sale securities were $1.5 million during the year ended December 31, 2017, compared to $1.0 million during the year ended December 31, 2016. Net realized and unrealized gains on trading securities were $881 thousand during the year ended December 31, 2017, compared to net realized and unrealized gains of $503 thousand during the year ended December 31, 2016.

As a result of the Bank's continued focus on growing its Private Client Solutions division, wealth and asset management revenues were $3.7 million in 2017, an increase of 20.6% from $3.1 million in 2016. During 2017, the Bank recorded $1.7 million in income from bank owned life insurance policies, including $387 thousand representing the death proceeds on life insurance policies in excess of the cash surrender value, compared to $1.1 million in 2016.

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

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Non-Interest Expense

Throughout 2017 and 2016, the Bank made numerous infrastructure, personnel, and technology investments to facilitate its continued growth. Total non-interest expenses were $70.0 million during the year ended December 31, 2017, compared to $67.1 million during the year ended December 31, 2016. In order to better serve our customers and improve operational efficiencies, the Bank completed a core processing system upgrade in May 2016. Included in non-interest expenses in 2016 are $3.7 million of non-recurring items, with costs associated with our core processing system upgrade of $1.7 million, merger related expenses of $486 thousand, and a prepayment penalty associated with the early payoff of long-term borrowings of $1.5 million.

Salaries and benefits expense increased $3.8 million, or 11.9%, during the year ended December 31, 2017 compared to the year ended December 31, 2016. As of December 31, 2017, the Corporation had 512 full-time equivalent staff, compared to 486 full-time equivalent staff as of December 31, 2016. The staff added during this period included both customer-facing personnel such as business development and wealth management officers, as well as support department personnel.

Income Tax Expense

Income taxes were $6.5 million in 2018, compared to $12.4 million in 2017 and $7.2 million in 2016. The effective tax rates were 16.2%, 34.2%, and 25.9% for 2018, 2017, and 2016, respectively. The effective tax rate for the periods differed from the federal statutory rate of 21.0% for 2018 and 35.0% for 2017 and 2016 principally as a result of tax-exempt income from securities and loans as well as earnings from bank owned life insurance. The lower effective tax rate in 2018 when compared to 2017 is the result $3.0 million of additional income tax expense recorded in 2017 related to the reduction in the carrying value of the net deferred tax asset due to the lower of the federal corporate tax rate to 21%.

Contractual Obligations and Commitments

The Corporation has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents, as of December 31, 2018, significant fixed and determinable contractual obligations to third parties by payment date.

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

	Payments Due In					
	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity		$2,215,349	$ 0	$ 0	$ 0	$2,215,349
Certificates of deposit	10	155,670	162,840	69,018	7,909	395,437
FHLB and other borrowings	11	47,562	71,245	124,175	2,135	245,117
Operating leases	7	1,514	3,041	3,069	18,538	26,162
Sale-leaseback	7	105	210	210	315	840
Subordinated debentures	11	0	0	0	70,620	70,620

The Corporation’s operating lease obligations represent short and long-term lease and rental payment for facilities. The Corporation’s sale-leaseback obligation represents a long-term real estate lease associated with one of the Corporation’s branch office locations. Effective January 1, 2019 the Corporation's leases will be reported on the balance sheet in accordance with ASU 2016-02.

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

Off-Balance Sheet Arrangements

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

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Applications of Critical Accounting Policies

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

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

Management reviews interest rate risk on a quarterly basis and reports to the ALCO. This review includes earnings shock scenarios whereby interest rates are immediately increased and decreased by 100, 200, 300, and 400 basis points. These scenarios, detailed in the table below, indicate that there would not be a significant variance in net interest income over a one-year period due to interest rate changes; however, actual results could vary significantly. At December 31, 2018 and 2017, all interest rate risk levels according to the model were within the tolerance limits of ALCO-approved policy. In addition, the table does not take into consideration changes that management would make to realign its assets and liabilities in the event of an unexpected changing interest rate environment. Due to the current low interest rate environment, the 300 and 400 basis point declining interest rate scenarios have been excluded from the table.

December 31, 2018		December 31, 2017	
Change in Basis Points	% Change in Net Interest Income	Change in Basis Points	% Change in Net Interest Income
400	7.6%	400	6.4%
300	6.0%	300	5.1%
200	4.9%	200	3.6%
100	5.2%	100	1.9%
(100)	(2.0)%	(100)	(2.4)%
(200)	(3.6)%	(200)	(3.9)%

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED BALANCE SHEETS
Dollars in thousands, except share data

	December 31, 2018	2017
ASSETS		
Cash and due from banks	$43,327	$33,146
Interest bearing deposits with other banks	2,236	2,199
Total cash and cash equivalents	45,563	35,345
Securities available for sale	516,863	409,709
Trading securities	7,786	7,150
Loans held for sale	367	852
Loans	2,479,348	2,149,848
Less: unearned discount	(4,791)	(3,889)
Less: allowance for loan losses	(19,704)	(19,693)
Net loans	2,454,853	2,126,266
FHLB and other equity interests	24,508	21,517
Premises and equipment, net	49,920	50,715
Bank owned life insurance	56,443	55,035
Mortgage servicing rights	1,495	1,387
Goodwill	38,730	38,730
Core deposit intangible	727	1,625
Accrued interest receivable and other assets	24,266	20,442
Total Assets	$3,221,521	$2,768,773
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Non-interest bearing deposits	$356,797	$321,858
Interest bearing deposits	2,253,989	1,845,957
Total deposits	2,610,786	2,167,815
Short-term borrowings	0	34,416
FHLB and other long-term borrowings	245,117	222,943
Subordinated debentures	70,620	70,620
Accrued interest payable and other liabilities	32,168	29,069
Total liabilities	2,958,691	2,524,863
Commitments and contingent liabilities		
Common stock, $0 par value; authorized 50,000,000 shares; issued 15,308,378 shares at December 31, 2018 and 2017	0	0
Additional paid in capital	97,602	97,042
Retained earnings	171,780	148,298
Treasury stock, at cost (101,097 and 43,638 shares for 2018 and 2017, respectively)	(2,556)	(1,087)
Accumulated other comprehensive loss	(3,996)	(343)
Total shareholders’ equity	262,830	243,910
Total Liabilities and Shareholders’ Equity	$3,221,521	$2,768,773

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Dollars in thousands, except per share data

	Year ended December 31,		
	2018	2017	2016
Interest and Dividend Income:			
Loans including fees	$118,193	$97,005	$81,209
Securities:			
Taxable	9,921	8,165	9,134
Tax-exempt	2,739	2,983	3,390
Dividends	1,017	721	582
Total interest and dividend income	131,870	108,874	94,315
Interest Expense:			
Deposits	17,228	9,312	8,470
Borrowed funds	5,856	4,021	2,981
Subordinated debentures (includes $164, $288, and $340 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2018, 2017, and 2016, respectively)	3,866	4,032	1,577
Total interest expense	26,950	17,365	13,028
Net Interest Income	104,920	91,509	81,287
Provision for Loan Losses	6,072	6,655	4,149
Net Interest Income After Provision for Loan Losses	98,848	84,854	77,138
Non-Interest Income:			
Service charges on deposit accounts	5,759	4,809	4,297
Other service charges and fees	2,833	2,454	2,539
Wealth and asset management fees	4,172	3,724	3,087
Net realized gains on available-for-sale securities (includes $0, $1,543, and $1,005 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2018, 2017, and 2016, respectively)	0	1,543	1,005
Net realized gains on trading securities	151	93	70
Net unrealized gains (losses) on trading securities	(602)	788	433
Mortgage banking	1,019	906	1,095
Bank owned life insurance	1,408	1,659	1,082
Card processing and interchange income	4,261	3,763	3,396
Gain on sale of branch	0	536	0
Other	1,722	1,160	687
Total non-interest income	20,723	21,435	17,691
Non-Interest Expenses:			
Salaries	31,323	26,205	23,472
Employee benefits (includes $84, $192, and $184 accumulated other comprehensive income reclassifications for net amortization of actuarial losses in 2018, 2017, and 2016, respectively)	10,533	9,821	8,722
Net occupancy expense	10,281	9,546	8,064
Amortization of core deposit intangible	898	1,229	1,125
Data processing	4,586	3,944	4,447
State and local taxes	3,441	2,815	2,171
Legal, professional and examination fees	1,851	1,819	1,772
Advertising	2,345	2,243	1,799
FDIC insurance	1,396	1,182	1,229
Directors fees and benefits	763	915	1,582

Prepayment penalties — long-term borrowings	0	0	1,506
Core processing conversion costs	0	0	1,693
Merger costs	0	0	486
Card processing and interchange expenses	2,834	2,116	1,889
Other	9,091	8,202	7,161
Total non-interest expenses	79,342	70,037	67,118
Income Before Income Taxes	40,229	36,252	27,711
Income Tax Expense (includes $(52), $372, and $168 income tax expense reclassification items in 2018, 2017, and 2016, respectively)	6,510	12,392	7,171
Net Income	33,719	23,860	20,540
Other Comprehensive Income (Loss):			
Net change in unrealized losses on available-for-sale securities, net of reclassification and tax	(4,007)	(1,004)	(2,136)
Change in actuarial gain (loss), for post-employment health care plan, net of amortization and tax	386	825	(64)
Change in fair value of interest rate swap agreements designated as a cash flow hedge, net of interest and tax	(32)	194	180
Total other comprehensive (loss) income	(3,653)	15	(2,020)
Comprehensive Income	$30,066	$23,875	$18,520
Earnings Per Share:			
Basic	$2.21	$1.57	$1.42
Diluted	2.21	1.57	1.42

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in thousands

	Year ended December 31,		
	2018	2017	2016
Cash Flows From Operating Activities:			
Net income	$33,719	$23,860	$20,540
Adjustments to reconcile net income to net cash provided by operations:			
Provision for loan losses	6,072	6,655	4,149
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	4,811	5,242	4,484
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	(537)	(1,202)	(1,328)
Deferred taxes	(1,076)	3,385	1,023
Net realized gains on sales of available-for-sale securities	0	(1,543)	(1,005)
Net realized and unrealized losses (gains) on trading securities	451	(881)	(503)
Proceeds from sale of trading securities	455	1,091	540
Purchase of trading securities	(1,542)	(2,502)	(319)
Gain on sale of branch	0	(536)	0
Gain on sale of loans	(624)	(545)	(818)
Net losses (gains) on dispositions of premises and equipment and foreclosed assets	47	(107)	134
Proceeds from sale of loans	23,311	24,285	33,045
Origination of loans held for sale	(22,990)	(25,231)	(31,255)
Income on bank owned life insurance, including death benefit of proceeds in excess of cash surrender value	(1,408)	(1,659)	(1,082)
Stock-based compensation expense	1,545	928	820
Contribution of treasury stock	0	0	150
Changes in:			
Accrued interest receivable and other assets	(3,079)	(1,175)	(3,906)
Accrued interest payable and other liabilities	4,613	698	2,095
Net Cash Provided By Operating Activities	43,768	30,763	26,764
Cash Flows from Investing Activities:			
Proceeds from maturities, prepayments and calls of available-for-sale securities	76,349	92,302	63,837
Proceeds from sales of available-for-sale securities	0	16,340	4,420
Purchase of available-for-sale securities	(189,374)	(23,689)	(21,513)
Loan origination and payments, net	(333,552)	(273,972)	(182,566)
Purchase of bank owned life insurance	0	(10,000)	0
Proceeds from death benefit of BOLI policies	0	897	0
Net cash received from sale of branch	0	1,079	0
Net cash paid for Lake National Bank acquisition	0	0	(2,866)
Purchase of FHLB and other equity interests	(2,991)	(2,331)	(2,628)
Purchase of premises and equipment	(3,068)	(5,215)	(10,125)
Proceeds from the sale of premises and equipment and foreclosed assets	1,048	938	558
Net Cash Used In Investing Activities	(451,588)	(203,651)	(150,883)
Cash Flows From Financing Activities:			
Net change in:			
Checking, money market and savings accounts	412,505	16,096	79,745
Certificates of deposit	30,466	134,197	(10,603)
Deposits held for sale	0	1,079	0
Purchase of treasury stock	(2,454)	(1,877)	(44)

Proceeds from stock offering, net of issuance costs	0	19,294	0
Cash dividends paid	(10,237)	(10,094)	(9,546)
Proceeds from long-term borrowings	50,000	160,000	80,000
Repayments on long-term borrowings	(27,826)	(70,092)	(81,317)
Net change in short-term borrowings	(34,416)	(69,553)	17,806
Proceeds from subordinated debentures	0	0	50,000
Net Cash Provided By Financing Activities	418,038	179,050	126,041
Net Increase in Cash and Cash Equivalents	10,218	6,162	1,922
Cash and Cash Equivalents, Beginning	35,345	29,183	27,261
Cash and Cash Equivalents, Ending	$45,563	$35,345	$29,183
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for:			
Interest	$26,551	$17,481	$13,284
Income taxes	7,050	7,810	3,966
Supplemental Noncash Disclosures:			
Transfers to other real estate owned	$228	$630	$120
Grant of restricted stock awards from treasury stock	996	984	896
Net liabilities assumed from Lake National Bank, excluding cash and cash equivalents	0	0	8,670
Net loans transferred to held for sale	0	0	7,319
Net deposits transferred to held for sale	0	0	6,456

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
Dollars in thousands, except share and per share data

	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balance, January 1, 2016	$77,827	$123,301	$(1,114)	$ 1,899	$201,913
Net income		20,540			20,540
Other comprehensive loss				(2,020)	(2,020)
Restricted stock award grants (52,750 shares)	(896)		896		0
Stock-based compensation expense	820				820
Purchase of treasury stock (1,298 shares)			(44)		(44)
Reissue of treasury stock (7,933 shares)	(14)		135		121
Cash dividends declared ($0.66 per share)		(9,546)			(9,546)
Balance, December 31, 2016	77,737	134,295	(127)	(121)	211,784
Net income		23,860			23,860
Reclassification of certain tax effects from accumulated other comprehensive income to retained earnings		237		(237)	0
Other comprehensive income				15	15
Forfeiture of restricted stock award grants (2,482 shares)	67		(67)		0
Restricted stock award grants (39,673 shares)	(984)		984		0
Stock-based compensation expense	928				928
Issuance of common stock, net of issuance costs (834,896 shares)	19,294				19,294
Purchase of treasury stock (75,162 shares)			(1,877)		(1,877)
Cash dividends declared ($0.66 per share)		(10,094)			(10,094)
Balance, December 31, 2017	97,042	148,298	(1,087)	(343)	243,910
Net income		33,719			33,719
Other comprehensive loss				(3,653)	(3,653)
Forfeiture of restricted stock award grants (361 shares)	11		(11)		0
Restricted stock award grants (40,108 shares)	(996)		996		0
Stock-based compensation expense	1,545				1,545
Purchase of treasury stock (97,206 shares)			(2,454)		(2,454)
Cash dividends declared ($0.67 per share)		(10,237)			(10,237)
Balance, December 31, 2018	$97,602	$171,780	$(2,556)	$ (3,996)	$262,830

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Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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

Business and Organization

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

Basis of Financial Presentation

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

Use of Estimates

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

Operating Segments

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

Securities

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

classified as available for sale are recorded as other comprehensive income. Management has not classified any debt securities as held to maturity.

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

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

Loans

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

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

All interest accrued but not received on loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. For all portfolio segments, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured

Concentration of Credit Risk

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

Purchased Loans

The Corporation purchased loans in connection with its acquisition of FC Banc Corp. in 2013 and Lake National Bank in 2016, some of which had, at the acquisition date, shown evidence of credit deterioration since origination. These purchased credit impaired loans were recorded at the amount paid, such that there was no carryover of the seller’s allowance for loan losses.

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

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

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

Loans Held for Sale

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

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

Allowance for Loan Losses

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

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

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

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

The general component of the allowance for loan losses covers non-impaired loans and loans collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the migration analysis performed. This actual loss experience is supplemented with other factors based on the risks present for each portfolio segment. These historical loss factors include consideration of the following: levels of and trends in delinquencies, nonaccrual loans, and classified loans; trends in volume and terms of loans; effects of any changes in lending policies and procedures; experience, ability, and depth of management; national and local economic trends and conditions; and concentrations of credit.

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

- Commercial, industrial, and agricultural – risk characteristics include below average economic and employment conditions in many of the markets served by the Corporation, which has limited consumer spending.
- Commercial mortgages – the most significant risk characteristic is the subjectivity involved in real estate valuations for properties located in areas with low growth economies.
- Residential real estate – risk characteristics include slightly higher than historical levels of delinquencies and less than robust housing markets.

- Consumer – risk characteristics include continuing weakness in industrial employment in many of the markets served by the Corporation and low wage growth.
- Credit cards – the most significant risk characteristic is the unsecured nature of credit card loans.
- Overdrafts – risk characteristics include the Corporation's continued deposit growth and overall economic conditions which may lead to a greater likelihood of overdrawn deposit accounts.

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Federal Home Loan Bank Stock

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

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

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

Premises and Equipment

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

Foreclosed Assets

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

Bank Owned Life Insurance

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

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 is generally determined as the excess of the fair value of the consideration transferred, plus the fair

value of any noncontrolling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate an impairment test should be performed.

The Corporation has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives. Goodwill is the only intangible asset with an indefinite life on the Corporation's balance sheet. Other intangible assets consist of core deposit intangible assets arising from the acquisition of FC Banc Corp. in 2013 and Lake National Bank in 2016. The core deposit intangible assets from these acquisitions are amortized using an accelerated method over their estimated useful lives of seven years and four years, respectively.

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Long-term Assets

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

Loan Commitments and Related Financial Instruments

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

Derivatives

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

At the inception of a derivative contract, the Corporation designates the derivative as one of three types based on the purpose of the contract and belief as to its effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

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

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

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for

changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Advertising Costs

Advertising costs are generally expensed as incurred and amounted to $2,345, $2,243 and $1,799, for 2018, 2017, and 2016, respectively.

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Mortgage Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in mortgage banking. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Corporation compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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

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

Treasury Stock

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

Stock-Based Compensation

The Corporation has a stock incentive plan for key employees and independent directors. The Stock Incentive Plan, which is administered by a committee of the Board of Directors, provides for up to 500,000 shares of common stock to be awarded in the form of nonqualified options or restricted stock. For key employees, the plan vesting is either one-third or one-fourth of the granted options or restricted stock per year, beginning one year after the grant date, with 100% vesting on the third or fourth anniversary of the grant date, respectively. Prior to 2018, for independent directors, the vesting schedule was one-third of the granted options or restricted stock per year beginning one year after the grant date, with 100% vested on the third anniversary of the grant date. Beginning in 2018, stock compensation received by independent directors vests immediately. At December 31, 2018 and 2017, there was no unrecognized compensation cost related to nonvested stock options granted under this plan, and no stock options were granted during the years ended December 31, 2018, 2017, and 2016.

In addition to the time-based restricted stock disclosed above, the Corporation's Board of Directors grants performance-based restricted stock awards ("PBRSAs") to key employees. The number of PBRSAs will depend on certain performance conditions and are also subject to service-based vesting. In 2018, awards with a maximum

of 10,468 shares in aggregate were granted to key employees. In 2017, an award with a maximum of 5,306 shares was granted to a key employee.

During 2018, 2017, and 2016, the Executive Compensation and Personnel Committee of the Corporation's Board of Directors granted a total of 40,108, 39,673 and 52,750 shares, respectively, of restricted common stock to certain key employees and all independent directors of the Corporation. Compensation expense for the restricted stock awards is recognized over the requisite service period based on the fair value of the shares at the date of grant on a straight-line basis. Nonvested restricted stock awards are recorded as a reduction of additional paid-in-capital in shareholders' equity until earned. Compensation expense resulting from these restricted stock awards was $1,545, $928 and $820 for the years ended December 31, 2018, 2017, and 2016, respectively.

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Comprehensive Income

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

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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

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

Retirement Plans

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

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per share is computed using the weighted average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation plans. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Corporation has determined that its outstanding non-vested stock awards are participating securities.

Cash and Cash Equivalents

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

Restrictions on Cash

The Bank is required to maintain average reserve balances with the Federal Reserve Bank or in vault cash. The average amount of these non-interest bearing reserve balances for the year ended December 31, 2018 and 2017 was

$50, which was maintained in vault cash. Note 12 to the consolidated financial statements discloses the cash collateral balances required to be maintained in connection with the Corporation’s interest rate swaps.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 22 to the consolidated financial statements for disclosure associated with a loss contingency in connection with a sales tax notice of assessment from the Pennsylvania Department of Revenue.

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Fair Value of Financial Instruments

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

Adoption of New Accounting Standards

On February 14, 2018, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in this ASU allow, but do not require, entities to reclassify certain income tax effects in accumulated other comprehensive income ("AOCI") to retained earnings that resulted from the Tax Cuts and Jobs Act (the "Act"). The Corporation adopted this ASU at December 31, 2017, which resulted in a reclassification that decreased beginning accumulated other comprehensive income and increased beginning retained earnings by $237 thousand. There were no other income tax effects related to the Act that were reclassified as a result of the adoption of the accounting standard.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 provides updated accounting and reporting requirements for both public and non-public entities. The most significant provisions that will impact the Corporation are: 1) equity securities available for sale will be measured at fair value, with the changes in fair value recognized in the income statement; 2) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments at amortized cost on the balance sheet; 3) utilization of exit price notion when measuring the fair value of financial instruments for disclosure purposes; 4) require separate presentation of both financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The Corporation's adoption of ASU 2016–01 on January 1, 2018, did not have a material effect on the Corporation's consolidated financial condition or results of operations. In accordance with the standard, the company measured fair value of its loan portfolio at December 31, using an exit price methodology as indicated in Note 20, fair value.

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under ASU 2014-09, as modified by subsequent ASUs, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration the entity expects to receive in exchange for those services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Corporation applied the five-step method outlined in ASU 2014-09 to all revenue streams scoped-in by ASU 2014-09 and elected the modified retrospective implementation method. Management determined that the primary sources of revenue emanating from interest and dividend income on loans and investment securities along with non-interest revenue resulting from security gains, loan servicing, gains on the sale of loans, commitment fees, fees from financial guarantees, certain credit cards fees, gains (losses) on sale of other real estate owned not financed by the Corporation, are not within the scope of ASU 2014-09 because the revenue from those contracts with customers is covered by other guidance in U.S. GAAP. The Corporation's largest sources of noninterest revenue which are subject to the guidance include wealth and asset management fees, service charges on deposit accounts and card processing and interchange income. Adoption of ASU 2014-09 did not change the timing and pattern of the Corporation's revenue recognition related to scoped-in noninterest income. No cumulative effect adjustment to opening retained earnings was necessary. New disclosures required by the ASU have been included in Note 21.

Effects of Newly Issued But Not Yet Effective Accounting Standards

In August 2018, the FASB issued ASU 2018-14, "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans." ASU 2018-14 amends ASC 715-20, "Compensation - Retirement Benefits - Defined Benefit Plans - General." The amended guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans by removing and adding certain disclosures for these plans. The eliminated disclosures include (a) the amounts in accumulated Other Comprehensive Income ("OCI") expected to be recognized in net periodic benefit costs over the next fiscal year, and (b) the effects of a one percentage point change in assumed health care cost trend rates on the net periodic benefit costs and the benefit obligation for post-retirement health care benefits. Additional disclosures include descriptions of significant gains and losses affecting the benefit obligation for the period. The update will be effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of ASU 2018-14 on the Corporation’s footnote disclosures included in the financial statements.

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In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” ASU 2018-13 modifies disclosure requirements on fair value measurements based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The update will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of ASU 2018-13 on the Corporation’s footnote disclosures included in the financial statements.
In June 2016, the FASB issued an update (ASU 2016-13, Financial Instruments – Credit Losses) which will require recognition of an entity’s current estimate of all expected credit losses for assets measured at amortized cost. The amendments in ASU 2016-13 eliminate the probable initial recognition threshold in current GAAP. In addition, the amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually, such as loans. The update will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2018. The Corporation has formed a committee comprised of individuals from different disciplines, including credit administration, finance, loan servicing and information technology, to evaluate the requirements of the new standard and the impact it will have on current processes. Management has performed a data gap analysis, and is developing analytical approaches to determine CECL model inputs. The Corporation has also engaged a software vendor to assist in implementing a CECL production platform. The new guidance is expected to be heavily influenced by an assessment of the composition, characteristics, and credit quality of the Corporation's loan and investment securities portfolio as well as the economic conditions in effect at the adoption date. The impact to the financial statements is yet to be determined.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 requires a lessee to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model. The update will be effective for reporting periods beginning after December 15, 2018, with early adoption permitted. Management recorded a cumulative effect adjustment effective at the beginning of 2019, which will include approximately $12.5 million of right of use assets, approximately $800 thousand in prepaid rent, and $13.3 million of related lease liabilities. The Corporation entered into two new leases with a lease commencement date subsequent to January 1, 2019, which included approximately an additional $5 million of lease assets and $5 million of related lease liabilities. The adoption is not expected to have a material impact to net income.

2. Business Combination and Branch Sale

On December 30, 2015, the Corporation announced the signing of a definitive merger agreement to acquire Lake National Bank ("LNB") of Mentor, Ohio for $22.50 per share in cash, or approximately $24.75 million in the aggregate. LNB served the northeastern Ohio market with two branches located in Mentor, Ohio. On July 15, 2016, the transaction closed and the Corporation began including LNB’s results of operations in its consolidated results. The two LNB offices now operate as part of the ERIEBANK division of the Bank.

As disclosed in the accompanying consolidated statement of income, the Corporation incurred merger costs of $486 for the twelve months ended December 31, 2016. All merger costs have been expensed as incurred.

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

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3. Earnings Per Share

The computation of basic and diluted earnings per share is shown below. There were no anti-dilutive stock options for the years ended December 31, 2018, 2017, and 2016.

	Years Ended December 31,		
	2018	2017	2016
Basic earnings per common share computation			
Net income per consolidated statements of income	$33,719	$23,860	$20,540
Net earnings allocated to participating securities	(150)	(135)	(129)
Net earnings allocated to common stock	$33,569	$23,725	$20,411
Distributed earnings allocated to common stock	$10,186	$10,030	$9,480
Undistributed earnings allocated to common stock	23,383	13,695	10,931
Net earnings allocated to common stock	$33,569	$23,725	$20,411
Weighted average common shares outstanding, including shares considered participating securities	15,274	15,212	14,457
Less: Average participating securities	(64)	(80)	(82)
Weighted average shares	15,210	15,132	14,375
Basic earnings per common share	$2.21	$1.57	$1.42
Diluted earnings per common share computation			
Net earnings allocated to common stock	$33,569	$23,725	$20,411
Weighted average common shares outstanding for basic earnings per common share	15,210	15,132	14,375
Add: Dilutive effects of assumed exercises of stock options	0	0	0
Weighted average shares and dilutive potential common shares	15,210	15,132	14,375
Diluted earnings per common share	$2.21	$1.57	$1.42

4. Securities

Securities available-for-sale at December 31, 2018 and 2017 are as follows:

	December 31, 2018				December 31, 2017			
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
U.S. Gov’t sponsored entities	$134,010	$254	$(1,570)	$132,694	$108,578	$478	$(908)	$108,148
State & political subdivisions	134,662	1,942	(573)	136,031	134,428	3,609	(314)	137,723
Residential & multi-family mortgage	209,126	500	(3,573)	206,053	111,214	304	(1,882)	109,636
Corporate notes & bonds	12,356	22	(601)	11,777	17,610	52	(462)	17,200
Pooled SBA	30,163	135	(924)	29,374	36,260	355	(575)	36,040
Other	1,020	0	(86)	934	1,020	0	(58)	962
Total	$521,337	$2,853	$(7,327)	$516,863	$409,110	$4,798	$(4,199)	$409,709

At December 31, 2018 and 2017, there were no holdings of securities by any one issuer, other than U.S. Government sponsored entities, in an amount greater than 10% of shareholders’ equity. The Corporation’s residential and multi-family mortgage securities are issued by government sponsored entities, and the Corporation holds one commercial mortgage security that is private label.

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Trading securities at December 31, 2018 and 2017 are as follows:

	2018	2017
Corporate equity securities	$5,828	$5,125
Mutual Funds	1,058	1,499
Certificates of deposit	268	220
Corporate notes and bonds	581	254
U.S. Government sponsored entities	51	52
Total	$7,786	$7,150

Securities with unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

December 31, 2018	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov't sponsored entities	$ 14,786	$ (41)	$70,676	$ (1,529)	$85,462	$ (1,570)
State & political subdivisions	13,834	(62)	21,080	(511)	34,914	(573)
Residential & multi-family mortgage	69,015	(656)	87,286	(2,917)	156,301	(3,573)
Corporate notes & bonds	0	0	9,759	(601)	9,759	(601)
Pooled SBA	760	(7)	20,795	(917)	21,555	(924)
Other	0	0	934	(86)	934	(86)
	$ 98,395	$ (766)	$210,530	$ (6,561)	$308,925	$ (7,327)

December 31, 2017	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Gov't sponsored entities	55,696	(540)	34,754	(368)	90,450	(908)
State & political subdivisions	15,890	(69)	4,104	(245)	19,994	(314)
Residential and multi-family mortgage	30,144	(153)	63,699	(1,729)	93,843	(1,882)
Corporate notes & bonds	5,005	(9)	9,042	(453)	14,047	(462)
Pooled SBA	0	0	22,270	(575)	22,270	(575)
Other	0	0	962	(58)	962	(58)
	106,735	(771)	134,831	(3,428)	241,566	(4,199)

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

During 2017, two structured pooled trust preferred securities with an adjusted amortized cost of $800 were sold, resulting in a gain of $1,383. During 2016, two structured pooled trust preferred securities with an adjusted amortized cost of $0 were sold, resulting in a gain of $922.

A roll-forward of the other-than-temporary impairment amount related to credit losses for the years ended December 31, 2018, 2017, and 2016 is as follows:

	2018	2017	2016
Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, beginning of period	$ 0	$2,071	$4,054
Credit losses previously recognized on securities sold during the period	0	(2,071)	(1,983)
Additional credit loss for which other-than-temporary impairment was not previously recognized	0	0	0
Additional credit loss for which other-than-temporary impairment was previously recognized	0	0	0
	$ 0	$0	$2,071

Balance of credit losses on debt securities for which a portion of other-than-temporary impairment was recognized in earnings, end of period

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

As of December 31, 2018 and 2017, management concluded that the securities described in the previous paragraph were not other-than-temporarily impaired for the following reasons:

- There is no indication of any significant deterioration of the creditworthiness of the institutions that issued the securities.
- All contractual interest payments on the securities have been received as scheduled, and no information has come to management’s attention through the processes previously described which would lead to a conclusion that future contractual payments will not be timely received.

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

On December 31, 2018 and 2017, securities carried at $290,717 and $319,575, respectively, were pledged to secure public deposits and for other purposes as provided by law.

The following is a schedule of the contractual maturity of securities available for sale, excluding other securities, at December 31, 2018:

	December 31, 2018	
	Amortized Cost	Fair Value
1 year or less	$58,509	$58,003
1 year – 5 years	146,605	146,111
5 years – 10 years	70,984	71,451
After 10 years	4,930	4,937
	281,028	280,502
Residential and multi-family mortgage	209,126	206,053
Pooled SBA	30,163	29,374
Other	1,020	934
Total debt securities	$521,337	$516,863

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

Information pertaining to security sales is as follows:

Year ended December 31	Proceeds	Gross Gains	Gross Losses
2018	$ 0	$ 0	$ 0
2017	16,340	1,614	71

2016	4,420	1,005	0

The tax provision related to these net realized gains at December 31, 2018, 2017 and 2016 was $0, $540, and $352, respectively.

During 2018, 2017, and 2016, the Corporation sold trading securities. Proceeds were $455 in 2018, $1,091 in 2017 and $540 in 2016, resulting in net realized gains of $151 in 2018, $93 in 2017, and $70 in 2016.

5. Loans

Total net loans at December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Commercial, industrial, and agricultural	$916,297	$704,606
Commercial mortgages	697,776	644,597
Residential real estate	771,309	713,347
Consumer	86,035	80,193
Credit cards	7,623	6,753
Overdrafts	308	352
Less: unearned discount	(4,791)	(3,889)
allowance for loan losses	(19,704)	(19,693)
Loans, net	$2,454,853	$2,126,266

At December 31, 2018 and 2017 net unamortized fees of $3,175 and $3,157, respectively, have been included in the carrying value of loans.

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

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

Commercial, industrial, and agricultural loans comprised 37% and 33% of the Corporation's total loan portfolio at December 31, 2018 and 2017, respectively. Commercial mortgage loans comprised 28% and 30% of the Corporation's total loan portfolio at December 31, 2018 and 2017, respectively. Management assigns a risk rating to all commercial loans at loan origination. The loan-to-value policy guidelines for commercial, industrial, and agricultural loans are generally a maximum of 80% of the value of business equipment, a maximum of 75% of the value of accounts receivable, and a maximum of 60% of the value of business inventory at loan origination. The loan-to-value policy guideline for commercial mortgage loans is generally a maximum of 85% of the appraised value of the real estate.

Residential real estate loans comprised 31% and 33% of the Corporation's total loan portfolio at December 31, 2018 and 2017, respectively. The loan-to-value policy guidelines for residential real estate loans vary depending on the collateral position and the specific type of loan. Higher loan-to-value terms may be approved with the appropriate private mortgage insurance coverage. The Corporation also originates and prices loans for sale into the secondary market. Loans so originated are classified as loans held for sale and are excluded from residential real estate loans reported above. The rationale for these sales is to mitigate interest rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio and to generate fee revenue from sales and servicing the loan. The Corporation also offers a variety of unsecured and secured consumer loan and credit card products which represent less than 4% of the total loan portfolio at both December 31, 2018 and 2017. Terms and collateral requirements vary depending on the size and nature of the loan.

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Transactions in the allowance for loan losses for the year ended December 31, 2018 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2018	$ 6,160	$ 9,007	$ 2,033	$ 2,179	$ 120	$ 194	$ 19,693
Charge-offs	(253)	(3,337)	(315)	(2,279)	(90)	(319)	(6,593)
Recoveries	171	30	67	141	33	90	532
Provision for loan losses	1,263	1,790	371	2,336	40	272	6,072
Allowance for loan losses, December 31, 2018	$ 7,341	$ 7,490	$ 2,156	$ 2,377	$ 103	$ 237	$ 19,704

Transactions in the allowance for loan losses for the year ended December 31, 2017 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2017	$ 5,428	$ 6,753	$ 1,653	$ 2,215	$ 93	$ 188	$ 16,330
Charge-offs	(544)	(116)	(466)	(2,555)	(144)	(252)	(4,077)
Recoveries	235	197	78	161	27	87	785
Provision for loan losses	1,041	2,173	768	2,358	144	171	6,655
Allowance for loan losses, December 31, 2017	$ 6,160	$ 9,007	$ 2,033	$ 2,179	$ 120	$ 194	$ 19,693

Transactions in the allowance for loan losses for the year ended December 31, 2016 were as follows:

	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses, January 1, 2016	$ 6,035	$ 5,605	$ 2,475	$ 2,371	$ 90	$ 161	$ 16,737
Charge-offs	(601)	(201)	(499)	(3,324)	(96)	(240)	(4,961)
Recoveries	89	8	93	122	22	71	405
Provision for loan losses	(95)	1,341	(416)	3,046	77	196	4,149
Allowance for loan losses, December 31, 2016	$ 5,428	$ 6,753	$ 1,653	$ 2,215	$ 93	$ 188	$ 16,330

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and is based on the Corporation's impairment method as of December 31, 2018 and 2017. The recorded investment in loans excludes accrued interest and unearned discounts due to their insignificance.

December 31, 2018	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 54	$ 4	$ 100	$ 0	$ 0	$ 10	$ 168
Collectively evaluated for impairment	7,183	3,036	2,056	2,377	103	227	14,982
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	104	4,450	0	0	0	0	4,554
Total ending allowance balance	$ 7,341	$ 7,490	$ 2,156	$ 2,377	$ 103	$ 237	$ 19,704
Loans:							
Individually evaluated for impairment	$ 1,334	$ 1,446	$ 502	$ 0	$ 0	$ 10	$ 3,292
Collectively evaluated for impairment	910,386	685,714	770,807	86,035	7,623	298	2,460,863
Acquired with deteriorated credit quality	0	567	0	0	0	0	567
Modified in a troubled debt restructuring	4,577	10,049	0	0	0	0	14,626
Total ending loans balance	$ 916,297	$ 697,776	$ 771,309	$ 86,035	$ 7,623	$ 308	$ 2,479,348

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December 31, 2017	Commercial, Industrial, and Agricultural	Commercial Mortgages	Residential Real Estate	Consumer	Credit Cards	Overdrafts	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 47	$ 0	$ 0	$ 0	$0	$ 0	$47
Collectively evaluated for impairment	5,868	3,563	2,033	2,179	120	194	13,957
Acquired with deteriorated credit quality	0	0	0	0	0	0	0
Modified in a troubled debt restructuring	245	5,444	0	0	0	0	5,689
Total ending allowance balance	$ 6,160	$ 9,007	$ 2,033	$ 2,179	$120	$ 194	$19,693
Loans:							
Individually evaluated for impairment	$ 1,187	$ 51	$ 0	$ 0	$0	$ 0	$1,238
Collectively evaluated for impairment	698,206	631,377	713,347	80,193	6,753	352	2,130,228
Acquired with deteriorated credit quality	0	1,079	0	0	0	0	1,079
Modified in a troubled debt restructuring	5,213	12,090	0	0	0	0	17,303
Total ending loans balance	$ 704,606	$ 644,597	$ 713,347	$ 80,193	$6,753	$ 352	$2,149,848

The following tables present information related to loans individually evaluated for impairment, including loans modified in troubled debt restructurings, by portfolio segment as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016:

December 31, 2018	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 3,053	$ 3,037	$ 158
Commercial mortgage	10,799	6,709	4,454
Residential real estate	502	502	100
Overdrafts	10	10	10
With no related allowance recorded:			
Commercial, industrial, and agricultural	3,684	2,874	0
Commercial mortgage	5,659	4,786	0
Residential real estate	0	0	0
Overdrafts	0	0	0
Total	$ 23,707	$ 17,918	$ 4,722

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December 31, 2017	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial, industrial, and agricultural	$ 1,915	$ 1,915	$ 292
Commercial mortgage	9,940	9,731	5,444
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	5,264	4,485	0
Commercial mortgage	3,211	2,410	0
Residential real estate	0	0	0
Total	$ 20,330	$ 18,541	$ 5,736

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

	Year Ended December 31, 2018		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	$2,745	$ 254	$ 249
Commercial mortgage	8,456	338	326
Residential real estate	304	20	19
Overdrafts	2	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	4,642	157	148
Commercial mortgage	4,566	146	144
Residential real estate	0	0	0
Overdrafts	0	0	0
Total	$20,715	$ 915	$ 886

	Year Ended December 31, 2017		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	$1,513	$ 97	$ 97
Commercial mortgage	11,944	327	327
Residential real estate	0	0	0
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,438	114	114
Commercial mortgage	2,474	122	122
Residential real estate	0	0	0
Total	$18,369	$ 660	$ 660

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	Year Ended December 31, 2016		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:			
Commercial, industrial, and agricultural	$2,616	$ 2	$ 2
Commercial mortgage	8,138	0	0
Residential real estate	50	6	6
With no related allowance recorded:			
Commercial, industrial, and agricultural	2,290	0	0
Commercial mortgage	2,773	0	0
Residential real estate	0	0	0
Total	$15,867	$ 8	$ 8

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

	December 31, 2018		December 31, 2017	
	Nonaccrual	Past Due Over 90 Days Still on Accrual	Nonaccrual	Past Due Over 90 Days Still on Accrual
Commercial, industrial, and agricultural	$2,839	$ 489	$1,869	144
Commercial mortgages	7,694	53	11,065	0
Residential real estate	6,023	299	5,470	429
Consumer	683	44	828	37
Credit cards	0	5	0	54
Total	$17,239	$ 890	$19,232	$ 664

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

The following table presents the aging of the recorded investment in past due loans as of December 31, 2018 and 2017 by class of loans.

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 2,379	$ 16	$ 2,341	$4,736	$911,561	$916,297
Commercial mortgages	858	3,058	297	4,213	693,563	697,776
Residential real estate	4,064	1,319	4,494	9,877	761,432	771,309
Consumer	474	283	367	1,124	84,911	86,035
Credit cards	59	15	5	79	7,544	7,623
Overdrafts	0	0	0	0	308	308
Total	$ 7,834	$ 4,691	$ 7,504	$20,029	$2,459,319	$2,479,348

December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, industrial, and agricultural	$ 2,745	$ 646	$ 748	$4,139	$700,467	$704,606
Commercial mortgages	233	0	292	525	644,072	644,597
Residential real estate	2,290	1,494	4,655	8,439	704,908	713,347
Consumer	454	307	812	1,573	78,620	80,193
Credit cards	29	2	54	85	6,668	6,753
Overdrafts	0	0	0	0	352	352
Total	$ 5,751	$ 2,449	$ 6,561	$14,761	$2,135,087	$2,149,848

Troubled Debt Restructurings

During the years ended December 31, 2018 and 2017, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included either or both of the following: a reduction of the stated interest rate of the loan; or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents the number of loans, loan balances, and specific reserves for loans that have been restructured in a troubled debt restructuring as of December 31, 2018 and December 31, 2017.

	December 31, 2018			December 31, 2017		
	Number of Loans	Loan Balance	Specific Reserve	Number of Loans	Loan Balance	Specific Reserve
Commercial, industrial, and agricultural	10	$4,577	$104	11	$5,213	$245
Commercial mortgages	15	10,049	4,450	9	12,090	5,444
Residential real estate	0	0	0	0	0	0
Consumer	0	0	0	0	0	0
Credit cards	0	0	0	0	0	0
Total	25	$14,626	$4,554	20	$17,303	$5,689

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2018, 2017, and 2016:

	Year Ended December 31, 2018		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, industrial, and agricultural	0	$ 0	$ 0
Commercial mortgages	5	1,570	1,570
Residential real estate	0	0	0
Consumer	0	0	0
Credit cards	0	0	0
Total	5	$ 1,570	$ 1,570

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	Year Ended December 31, 2017		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, industrial, and agricultural	4	$ 2,750	$ 2,750
Commercial mortgages	2	6,421	6,421
Residential real estate	0	0	0
Consumer	0	0	0
Credit cards	0	0	0
Total	6	$ 9,171	$ 9,171

	Year Ended December 31, 2016		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, industrial, and agricultural	1	$ 109	$ 109
Commercial mortgages	0	0	0
Residential real estate	0	0	0
Consumer	0	0	0
Credit cards	0	0	0
Total	1	$ 109	$ 109

The troubled debt restructurings described above increased the allowance for loan losses by $351, $4,024 and $0 during the years ended December 31, 2018, 2017, and 2016, respectively.

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

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. Except as discussed below, all loans modified in troubled debt restructurings are performing in accordance with their modified terms as of December 31, 2018 and 2017 and no principal balances were forgiven in connection with the loan restructurings.

During the year ended December 31, 2018 five impaired commercial real estate loans totaling $1,677 were modified in troubled debt restructurings. The Corporation recorded an additional provision for loan losses of $351 and there were no chargeoffs for these loans during the year ended December 31, 2018. During the year ended December 31, 2018, one impaired commercial real estate loan that was modified in a troubled debt restructuring in 2017 began not to perform in accordance with its modified terms. As a result, an additional provision for loan losses of $1,847 was recorded, and the Corporation recorded a partial chargeoff of the loan of $3,336 during the year ended December 31, 2018.

During the year ended December 31, 2017 four impaired commercial industrial loan having a balance of $2,750 was modified in troubled debt restructurings. The Corporation did not record any additional provision for loan losses and there were no chargeoffs or defaults for these loans during the year ended December 31, 2017.

During the year ended December 31, 2017 two impaired commercial real estate loans totaling $6,421 were modified in troubled debt restructurings. The Corporation recorded an additional provision for loan losses of $3,895 and there were no chargeoffs or defaults for these loans during the year ended December 31, 2017.

During the year ended December 31, 2016 one impaired commercial industrial loan having a balance of $109 was modified in troubled debt restructurings. The Corporation did not record any additional provision for loan losses and there was no chargeoff or default for this loan during the year ended December 31, 2016.

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

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

Credit Quality Indicators

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

The Corporation uses the following definitions for risk ratings:

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

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

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

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

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$889,547	$10,519	$ 16,231	$ 0	$916,297
Commercial mortgages	683,413	3,241	11,122	0	697,776
Total	$1,572,960	$13,760	$ 27,353	$ 0	$1,614,073

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, industrial, and agricultural	$668,570	$16,726	$ 19,310	$ 0	$704,606
Commercial mortgages	626,163	4,419	14,015	0	644,597
Total	$1,294,733	$21,145	$ 33,325	$ 0	$1,349,203

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential real estate, consumer, and credit card loan classes, the Corporation also evaluates credit quality based on the performance status of the loan, which was previously presented, and by payment activity. Nonperforming loans include loans on nonaccrual status and loans past due over 90 days and still accruing interest. The following table presents the recorded investment in residential, consumer, and credit card loans based on performance status as of December 31, 2018 and December 31, 2017:

	December 31, 2018			December 31, 2017		
	Residential Real Estate	Consumer	Credit Cards	Residential Real Estate	Consumer	Credit Cards

Performing	$764,987	$ 85,308	$7,618	$707,448	$ 79,328	$6,699
Nonperforming	6,322	727	5	5,899	865	54
Total	$771,309	$ 86,035	$7,623	$713,347	$ 80,193	$6,753

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

Holiday's loan portfolio, included in consumer and residential loans above, is summarized as follows at December 31, 2018 and 2017:

	2018	2017
Consumer	$26,568	$23,428
Less: unearned discount	(4,791)	(3,889)
Total	$21,777	$19,539

6. Secondary Market Mortgage Activities

The following summarizes secondary market mortgage activities for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
Loans originated for resale	$22,990	$25,231	$31,255
Proceeds from sales of loans held for sale	23,311	24,285	33,045
Net gains on sales of loans held for sale	624	545	818
Loan servicing fees	600	563	421

Total loans serviced for others were $166,332 and $159,208 December 31, 2018 and 2017, respectively.

The following summarizes activity for capitalized mortgage servicing rights for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
Balance, beginning of year	$1,387	$1,391	$962
Additions	315	198	200
Servicing rights acquired	0	0	367
Amortization	(207)	(202)	(138)
Balance, end of year	$1,495	$1,387	$1,391

The fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The fair value of mortgage servicing rights was not materially different than amortized cost at December 31, 2018 and 2017, respectively. No valuation allowance was deemed necessary at December 31, 2018, 2017, and 2016. The fair value of interest rate lock commitments and forward commitments to sell loans was not material at December 31, 2018 or 2017.

7. Premises and Equipment

The following summarizes premises and equipment at December 31, 2018 and 2017:

	2018	2017
Land	$8,301	$8,147
Premises and leasehold improvements	52,810	53,903
Furniture and equipment	27,548	31,238
Construction in process	1,283	71
	89,942	93,359

Less: accumulated depreciation	40,022	42,644
Premises and equipment, net	$49,920	$50,715

Depreciation on premises and equipment amounted to $3,706 in 2018, $3,811 in 2017 and $3,215 in 2016.

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The Corporation is committed under twenty-eight non-cancelable operating leases for facilities and six non-cancelable operating leases for vehicles and equipment with initial or remaining terms in excess of one year. The minimum annual rental commitments under these leases at December 31, 2018 are as follows:

2019	$1,514
2020	1,513
2021	1,528
2022	1,567
2023	1,502
Thereafter	18,538
	$26,162

Rental expense, net of rental income, charged to occupancy expense for 2018, 2017, and 2016 was $932, $870 and $773, respectively.

In December 2009, the Corporation entered into a sale-leaseback transaction for real estate used in the operations of one of its branch office locations. The lease term is seventeen years, with two automatic renewal terms of five years each. The Corporation sold the property for $1,200 but financed the entire sales amount. Because the buyer/lessor did not make an initial investment on the purchase of the real estate that is adequate to transfer the risks and rewards of ownership, the Corporation deferred the entire gain of $489 associated with this transaction, which is included in accrued interest payable and other liabilities in the accompanying consolidated balance sheet. The gain is being recognized over the term of the loan under the installment method, and the gain recognized was included in other income in the accompanying consolidated statements of income and comprehensive income and totaled $26, $25 and $25 in 2018, 2017, and 2016, respectively.

The minimum annual rental commitments under this sale-leaseback transaction at December 31, 2018 are as follows:

2019	$105
2020	105
2021	105
2022	105
2023	105
Thereafter	315
	$840

8. Foreclosed Assets

Foreclosed real estate is reported net of a valuation allowance and included in accrued interest receivable and other assets in the accompanying consolidated balance sheets. Activity for the years ended December 31, 2018, 2017, and 2016 is as follows:

	2018	2017	2016
Balance, beginning of year	$710	$1,015	$654
Acquired from Lake National Bank	0	0	665
Additions	228	630	120
Sales (at carrying value)	(520)	(935)	(424)
Balance, end of year	$418	$710	$1,015

Expenses related to foreclosed real estate include:

	2018	2017	2016
Net gain on sale	$(310)	$(208)	$(134)
Operating expenses, net of rental income	283	366	223

$(27)	$158	$89

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9. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance, beginning of year	$38,730	$38,730
Acquired during the year	0	0
Balance, end of year	$38,730	$38,730

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test. Step 1 includes the determination of the carrying value of our single reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. We determined the fair value of our reporting unit exceeded its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, we are required to perform a second step to the impairment test. Our annual impairment analysis at December 31, 2018 and 2017 indicated that the Step 2 analysis was not necessary.

Intangible Assets

In connection with its acquisition of FC Banc Corp. in 2013, the Corporation recorded a core deposit intangible asset of $4,834. During the years ended December 31, 2018, 2017, and 2016, the Corporation recorded amortization expense of $489, $662 and $835, respectively. The net carrying values at December 31, 2018 and December 31, 2017 were $410 and $899, respectively. No other intangible assets were required to be recorded in connection with the acquisition of FC Banc Corp.

In connection with its acquisition of Lake National Bank in 2016, the Corporation recorded a core deposit intangible asset of $1,583. During the year ended December 31, 2018, 2017, and 2016, the Corporation recorded amortization expense of $409, $567, and $290, respectively. The net carrying values at December 31, 2018 and 2017 were $317 and $726, respectively. No other intangible assets were required to be recorded in connection with the acquisition of Lake National Bank.

The estimated remaining amortization expense of core deposit intangible assets is as follows:

2019	$567
2020	160

10. Deposits

The following table reflects time certificates of deposit accounts included in total deposits and their remaining maturities at December 31, 2018:

Time deposits maturing:	
2019	$155,670
2020	100,360
2021	62,480
2022	62,204
2023	6,814
Thereafter	7,909
	$395,437

Certificates of deposit of $250 or more totaled $105,626 and $108,992 at December 31, 2018 and 2017, respectively. The Corporation had $3,219 and $3,535 in reciprocal brokered deposits at December 31, 2018 and 2017.

11. Borrowings

At December 31, 2018 and 2017, the Corporation had available one $10 million unsecured line of credit with an unaffiliated institution, at a variable interest rate with a floor as defined in the agreement. There were no borrowings on the line of credit at December 31, 2018 and 2017.

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FHLB Borrowings

At December 31, 2018, the Bank had remaining borrowing capacity with the FHLB of $317,570. At December 31, 2018, borrowings with the FHLB are secured by a pledge of certain loans with a balance of $769,316. At December 31, 2018 and 2017, advances from the FHLB are as follows:

	2018	2017
Maturities range from 6/28/2019 through 2/11/2033; rates fixed at a range of 1.17% to 5.24%; weighted average rate is 2.06% as of December 31, 2018. Maturities range from 9/6/2018 through 2/11/2033; rates fixed at a range of 1.05% to 5.24%; weighted average rate is 1.81% as of December 31, 2017.	$245,117	$222,943
Open Repo borrowing at an interest rate of 1.54% at December 31, 2017. The maximum amount of the Open Repo borrowing available is $150,000.	0	34,416
Total	$245,117	$257,359

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

Other Borrowings

At December 31, 2018 and 2017, the Bank had no outstanding borrowings from unaffiliated institutions under overnight borrowing agreements.

Subordinated Debentures

In 2007, the Corporation issued two $10,000 floating rate trust preferred securities as part of a pooled offering of such securities. The interest rate on each offering is determined quarterly and floats based on the 3 month LIBOR plus 1.55% and was 4.36% at December 31, 2018 and 3.24% at December 31, 2017. The Corporation issued subordinated debentures to the trusts in exchange for the proceeds of the offerings, which debentures represent the sole assets of the trusts. The subordinated debentures must be redeemed no later than 2037. The Corporation may redeem the debentures, in whole or in part, at face value at any time. The Corporation has the option to defer interest payments from time to time for a period not to exceed five consecutive years. Although the trusts are variable interest entities, the Corporation is not the primary beneficiary. As a result, because the trusts are not consolidated with the Corporation, the Corporation does not report the securities issued by the trusts as liabilities. Instead, the Corporation reports as liabilities the subordinated debentures issued by the Corporation and held by the trusts, since the liabilities are not eliminated in consolidation.

In September 2016, the Corporation completed a private placement of $50,000 in aggregate principal amount of fixed-to-floating rate subordinated notes. The notes will mature in October 2026, and will initially bear interest at a fixed rate of 5.75% per annum, payable semi-annually in arrears, to, but excluding, October 15, 2021, and thereafter to, but excluding, the maturity date or earlier redemption, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 4.55%. These subordinated notes were designed to qualify as Tier 2 capital under the Federal Reserve's capital guidelines and were given an investment grade rating of BBB- by Kroll Bond Rating Agency.

Maturity Schedule of All Borrowed Funds

The following is a schedule of maturities of all borrowed funds as of December 31, 2018:

2019	$47,562
2020	37,505
2021	33,740

2022	72,931
2023	51,244
Thereafter	72,755
Total borrowed funds	$315,737

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12. Interest Rate Swaps

On September 7, 2018, the Corporation executed an interest rate swap agreement with a 5-year term and an effective date of September 15, 2018 in order to hedge cash flows associated with $10 million of a subordinated note that was issued by the Corporation during 2007 and elected cash flow hedge accounting for the agreement. The Corporation's objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments from September 15, 2018 to September 15, 2023 without the exchange of the underlying notional amount. At December 31, 2018, the variable rate on the subordinated debt was 4.36% (LIBOR plus 155 basis points) and the Corporation was paying 4.53% (2.98% fixed rate plus 155 basis points).

On May 3, 2011, the Corporation executed an interest rate swap agreement with a 5-year term and an effective date of September 15, 2013 and expired September 2018, in order to hedge cash flows associated with $10 million of a subordinated note discussed above. The Corporation's objective in using this derivative was to add stability to interest expense and to manage its exposure to interest rate risk. The interest rate swap involved the receipt of variable-rate amounts in exchange for fixed-rate payments from September 15, 2013 to September 15, 2018 without exchange of the underlying notional amount.

As of December 31, 2018 and 2017, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Corporation does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

The following tables provide information about the amounts and locations of activity related to the interest rate swaps designated as cash flow hedges within the Corporation's consolidated balance sheet and statement of income as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016:

As of December 31	Liability Derivative		
	Balance Sheet Location	Fair value 2018	2017
Interest rate contract	Accrued interest payable and other liabilities	$(201)	$(161)

For the Year Ended December 31, 2018	(a)	(b)	(c)	(d)	(e)
Interest rate contract	$(32)	Interest expense – subordinated debentures	$(164)	Other income	$0
For the Year Ended December 31, 2017					
Interest rate contract	$194	Interest expense – subordinated debentures	$(288)	Other income	$0
For the Year Ended December 31, 2016					
Interest rate contract	$180	Interest expense – subordinated debentures	$(340)	Other income	$0

(a) Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivative (Effective Portion), net of tax
(b) Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(c) Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
(d) Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)

(e) Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)

Amounts reported in accumulated other comprehensive loss related to the interest rate swap will be reclassified to interest expense as interest payments are made on the subordinated debentures. Such amounts reclassified from accumulated other comprehensive loss to interest expense in the next twelve months are expected to be $17.

As of December 31, 2018 and 2017, a cash collateral balance of $200 and $1,400, respectively, was maintained with the counterparty to the interest rate swaps. These balances are included in interest bearing deposits with other banks on the consolidated balance sheets.

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The Corporation entered into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which the Corporation enters into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each swap transaction, the Corporation agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. Concurrently, the Corporation agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the Corporation's customers to effectively convert a variable rate loan to a fixed rate. Because the Corporation acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts offset each other and do not impact the Corporation's results of operations.

The following table provides information about the amounts and locations of activity related to the back-to-back interest rate swaps within the Corporation's consolidated balance sheet as of December 31, 2018 and 2017:

	Notional Amount	Average Maturity (in years)	Weighted Average Fixed Rate		Weighted Average Variable Rate	Fair Value
December 31, 2018						
3rd Party interest rate swaps	$23,152	7.2	3.85	%	1 month LIBOR + 2.24%	485 (a)
Customer interest rate swaps	(23,152)	7.2	3.85	%	1 month LIBOR + 2.24%	(485) (b)
December 31, 2017						
3rd Party interest rate swaps	$11,848	8.0	4.51	%	1 month LIBOR + 2.37%	149 (a)
Customer interest rate swaps	(11,848)	8.0	4.51	%	1 month LIBOR + 2.37%	(149) (b)

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

13. Income Taxes

The following is a summary of income tax expense for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
Current – federal	$7,520	$8,978	$6,181
Current – state	66	29	(33)
Deferred – federal	(1,076)	376	1,023
Deferred tax adjustment related to reduction in U.S. federal statutory income tax rate	0	3,009	0
Income tax expense	$6,510	$12,392	$7,171

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

	2018	%	2017	%	2016	%
Tax at statutory rate	$8,448	21.0	$12,688	35.0	$9,699	35.0
Tax exempt income, net	(1,403)	(3.5)	(1,899)	(5.2)	(2,054)	(7.4)
Deferred tax adjustment related to reduction in U.S. federal statutory income tax rate	0	0.0	3,009	8.3	0	0.0
Bank owned life insurance	(296)	(0.7)	(581)	(1.6)	(379)	(1.3)
Merger costs	0	0.0	0	0.0	170	0.6
Other	(239)	(0.6)	(825)	(2.3)	(265)	(1.0)
Income tax expense	$6,510	16.2	$12,392	34.2	$7,171	25.9

Income tax expense for the year ended December 31, 2017 was impacted by the adjustment of our deferred tax assets and liabilities related to the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017. Accordingly, the Corporation recognized additional tax expense totaling $3,009 in 2017, as detailed in the table above.

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The following table sets forth deferred taxes as of December 31, 2018 and 2017. As a result of the Tax Cuts and Jobs Act (discussed below), deferred taxes as of December 31, 2018 and 2017 are based on the enacted U.S. statutory federal income tax rate of 21%.

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$3,088	$2,840
Fair value adjustments – business combination	966	1,135
Deferred compensation	2,056	1,903
Net operating loss carryover	0	71
Post-retirement benefits	836	892
Unrealized loss on interest rate swap	42	34
Nonaccrual loan interest	589	390
Accrued expenses	1,254	699
Deferred fees and costs	588	598
Unrealized loss on securities available for sale	940	0
Other	366	344
	10,725	8,906
Deferred tax liabilities:		
Unrealized gain on securities available for sale	0	126
Premises and equipment	1,459	1,413
Unrealized gain on trading securities	63	156
Intangibles – section 197	2,414	2,593
Mortgage servicing rights	314	291
Other	178	78
	4,428	4,657
Net deferred tax asset	$6,297	$4,249

At December 31, 2018 and 2017, the Corporation had no unrecognized tax benefits. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Corporation recognizes interest and/or penalties related to income tax matters as part of income tax expense. At December 31, 2018 and 2017, there were no amounts accrued for interest and/or penalties and no amounts recorded as expense for the years ending December 31, 2018, 2017, and 2016.

The Corporation and its subsidiaries are subject to U.S. federal income tax, as well as various filing various state returns. The Corporation is no longer subject to examination by the taxing authorities for years prior to 2015. Tax years 2015 through 2018 are open to examination.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums. The Tax Cuts and Jobs Act also significantly changes U.S. tax law related to foreign operations, however, such changes do not currently impact the Corporation.

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14. Employee Benefit Plans

The Corporation sponsors a contributory defined contribution Section 401(k) plan in which substantially all employees participate. The plan permits employees to make pre-tax contributions which are matched by the Corporation at 100% for every 1% contributed up to 3% then 50% for every 1% contributed up to the next 2% in total of the employee's compensation. The Corporation's matching contribution and related expenses were $810, $802 and $652 in 2018, 2017, and 2016, respectively. Profit sharing contributions to this plan, based on current year compensation, are 6.0% of total compensation plus 5.7% of the compensation in excess of $128. The Corporation recognized profit sharing expense of $1,530, $1,755 and $1,276 in 2018, 2017, and 2016 respectively.

The Corporation has adopted a non-qualified supplemental executive retirement plan ("SERP") for certain executives to compensate those executive participants in the Corporation's retirement plan whose benefits are limited by compensation limitations under current tax law. The SERP is considered an unfunded plan for tax and ERISA purposes and all obligations arising under the SERP are payable from the general assets of the Corporation. At December 31, 2018 and 2017, obligations of $5,867 and $5,349, respectively, were included in other liabilities for this plan. Expenses related to this plan were $776 in 2018, $648 in 2017 and $550 in 2016.

The Corporation has established a Survivor Benefit Plan for the benefit of outside directors. The purpose of the plan is to provide life insurance benefits to beneficiaries of the Corporation's directors who at the time of their death are participants in the plan. The plan is considered an unfunded plan for tax and ERISA purposes and all obligations arising under the plan are payable from the general assets of the Corporation. At December 31, 2018 and 2017, obligations of $1,330 and $1,264, respectively, were included in other liabilities for this plan. Expenses related to this plan were $66 in 2018, $89 in 2017 and $33 in 2016.

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

The following table sets forth the change in the benefit obligation of the plan as of and for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
Benefit obligation at beginning of year	$2,740	$3,409	$3,066
Interest cost	83	114	108
Service cost	87	103	103
Actual claims	(79)	(78)	(151)
Actuarial (gain) loss	(404)	(808)	283
Benefit obligation at end of year	$2,427	$2,740	$3,409

Amounts recognized in accumulated other comprehensive income at December 31, 2018 and 2017 consist of:

	2018	2017
Net actuarial loss	$(383)	$(871)
Tax effect	79	183
	$(304)	$(688)

The accumulated benefit obligation was $2,427 and $2,740 at December 31, 2018 and 2017, respectively.

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

	2018	2017	2016
Service cost	$87	$103	$103
Interest cost	83	114	108
Net amortization of transition obligation and actuarial loss	84	192	184
Net periodic benefit cost	254	409	395
Net (gain) loss	(404)	(808)	282
Amortization of loss	(84)	(192)	(184)
Total recognized in other comprehensive income	(488)	(1,000)	98
Total recognized in net periodic benefit cost and other comprehensive income	$(234)	$(591)	$493

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $23.

The weighted average discount rate used to calculate net periodic benefit cost was 3.13% in 2018, 3.49% in 2017, and 3.67% in 2016. The weighted average rate used to calculate accrued benefit obligations was 3.78% in 2018, 3.13% in 2017, and 3.49% in 2016. The health care cost trend rate used to measure the expected costs of benefits is 5.0% for 2019 and thereafter. A one percent increase in the health care trend rates would result in an increase of $182 in the benefit obligation as of December 31, 2018, and would increase the service and interest costs by $14 in future periods. A similar one percent decrease in health care trend rates would result in a decrease of $165 and $13 in the benefit obligation and services and interest costs, respectively, at December 31, 2018.

15. Deferred Compensation Plans

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

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

	2018	2017	2016
Balance, beginning of year	$2,503	$2,080	$1,226
Deferrals, dividends, and changes in fair value recorded as an expense	64	444	936
Deferred compensation payments	(159)	(21)	(82)
Balance, end of year	$2,408	$2,503	$2,080

16. Stock-Based Compensation

A summary of changes in nonvested restricted stock awards follows:

	Shares	Weighted-average Grant Date Fair Value
Nonvested at January 1, 2018	94,472	$ 20.79
Granted	24,508	26.92
Forfeited	(361)	26.19
Vested	(42,730)	19.87
Nonvested at December 31, 2018	75,889	$ 23.20

The above table excludes 15,600 shares in restricted stock awards that were granted at a weighted average fair value of $27.16 and immediately vested. As of December 31, 2018 and 2017, there was $775 and $1,243, respectively, of total unrecognized compensation cost related to nonvested shares granted under the restricted stock award plan. The fair value of shares vesting during 2018, 2017, and 2016 was $1,535, $1,035 and $624, respectively. Compensation expense for restricted stock awards was $1,545 in 2018, $928 in 2017 and $820 in 2016.

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The number of authorized stock-based awards still available for grant as of December 31, 2018 was 159,224.

In addition to the time-based restricted stock disclosed above, the Corporation's Board of Directors grants performance-based restricted stock awards ("PBRSAs") to key employees. The number of PBRSAs will depend on certain performance conditions and are also subject to service-based vesting. In 2018, awards with a maximum of 10,468 shares in aggregate were granted to key employees. In 2017, an award with a maximum of 5,306 shares was granted to a key employee.

17. Related Party Transactions

In the ordinary course of business, the Bank has transactions, including loans and credit cards, with its officers, directors, and their affiliated companies. The aggregate of such loans and credit cards totaled $8,596 on December 31, 2018 compared to $5,331 on December 31, 2017. During 2018, $18,020 in new loans were made, $26 were added for the net change in outstanding credit card balances, and repayments totaled $14,781.

Deposits from principal officers, directors, and their affiliates were $9,619 and $11,982 at December 31, 2018 and 2017, respectively.

18. Capital Requirements and Restrictions on Retained Earnings

Banks and financial holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, for the Bank, prompt corrective action ("PCA") regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can result in regulatory enforcement actions. Under the Basel III rules, the Corporation and the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2018 was 1.875% and for 2017 was 1.25%. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities are excluded from computing regulatory capital. Management believes as of December 31, 2018 the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

The PCA regulations provide five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms alone do not represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion; brokered deposits may not be accepted, renewed or rolled over; and capital restoration plans are required. As of December 31, 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the PCA regulatory framework. There are no events or conditions since this notification that management believes have changed the Bank's capital category.

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Actual and required capital amounts and ratios are presented below as of December 31, 2018 and 2017. The capital adequacy ratio includes the capital conservation buffer.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total Capital to Risk Weighted Assets						
Consolidated	$319,340	13.21%	$238,719	9.875%	N/A	
Bank	$302,627	12.59%	$237,325	9.875%	$ 240,329	10.00 %
Tier 1 (Core) Capital to Risk Weighted Assets						
Consolidated	$249,636	10.33%	$190,371	7.875%	N/A	
Bank	$284,722	11.85%	$189,259	7.875%	$ 192,263	8.00 %
Common equity Tier 1 to Risk Weighted Assets						
Consolidated	$229,636	9.50 %	$154,110	6.375%	N/A	
Bank	$277,343	11.54%	$153,210	6.375%	$ 156,214	6.50 %
Tier 1 (Core) Capital to Average Assets						
Consolidated	$249,636	7.87 %	$126,882	4.00 %	N/A	
Bank	$284,722	9.12 %	$124,903	4.00 %	$ 156,128	5.00 %
December 31, 2017						
Total Capital to Risk Weighted Assets						
Consolidated	$297,708	14.32%	$192,341	9.25 %	N/A	
Bank	$279,704	13.58%	$190,513	9.25 %	$ 205,960	10.00 %
Tier 1 (Core) Capital to Risk Weighted Assets						
Consolidated	$228,015	10.97%	$150,754	7.25 %	N/A	
Bank	$261,643	12.70%	$149,321	7.25 %	$ 164,768	8.00 %
Common equity Tier 1 to Risk Weighted Assets						
Consolidated	$208,015	10.00%	$119,563	5.75 %	N/A	
Bank	$254,264	12.35%	$118,427	5.75 %	$ 133,874	6.50 %
Tier 1 (Core) Capital to Average Assets						
Consolidated	$228,015	8.45 %	$107,969	4.00 %	N/A	
Bank	$261,643	9.80 %	$106,798	4.00 %	$ 133,498	5.00 %

Certain restrictions exist regarding the ability of the Bank to transfer funds to the Corporation in the form of cash dividends, loans or advances. During 2019, $41,463 of accumulated net earnings of the Bank included in consolidated stockholders’ equity, plus any 2019 net profits retained to the date of the dividend declared, is available for distribution to the Corporation as dividends without prior regulatory approval, subject to regulatory capital requirements described above.

19. Off-Balance Sheet Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31, 2018 and 2017:

	2018		2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$46,265	$ 191,803	$46,701	$ 196,449
Unused lines of credit	14,390	429,456	14,565	373,618
Standby letters of credit	14,831	1,479	13,706	1,524

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Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments at December 31, 2018 have interest rates ranging from 2.45% to 18.00% and maturities ranging from one year to 35 years. The fixed rate loan commitments at December 31, 2017 have interest rates ranging from 1.00% to 18.00% and maturities ranging from eight months to 35 years.

The Corporation makes investments in limited partnerships, including certain small business investment corporations and low income housing partnerships. As of December 31, 2018 and 2017, unfunded capital commitments totaled $3,905 and $3,500, respectively for the small business investment corporations and $1,434 and $2,468 for the low income housing partnerships, respectively. At December 31, 2018 and 2017, capital contributions to the small business investment corporations were $6,595 and $4,500, respectively and capital contributions to the low income housing partnerships were $4,566 and $3,532, respectively.

20. Fair Value

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy has also been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs are used to measure fair value:
Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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Assets and liabilities measured at fair value on a recurring basis are as follows at December 31, 2018 and 2017:

Description	Total	Fair Value Measurements at December 31, 2018 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$132,694	$0	$ 132,694	$ 0
States and political subdivisions	136,031	0	136,031	0
Residential and multi-family mortgage	206,053	0	206,053	0
Corporate notes and bonds	11,777	0	11,777	0
Pooled SBA	29,374	0	29,374	0
Other	934	934	0	0
Total Securities Available For Sale	$516,863	$934	$ 515,929	$ 0
Interest rate swaps	$485	$0	$ 485	$ 0
Trading Securities:				
Corporate equity securities	$5,828	$5,828	$ 0	$ 0
Mutual funds	1,058	1,058	0	0
Certificates of deposit	268	268	0	0
Corporate notes and bonds	581	581	0	0
U.S. Government sponsored entities	51	0	51	0
Total Trading Securities	$7,786	$7,735	$ 51	$ 0
Liabilities				
Interest rate swaps	$(686)	$0	$ (686)	$ 0

Description	Total	Fair Value Measurements at December 31, 2017 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities Available For Sale:				
U.S. Government sponsored entities	$108,148	$0	$108,148	$ 0
States and political subdivisions	137,723	0	137,723	0
Residential and multi-family mortgage	109,636	0	109,636	0
Corporate notes and bonds	17,200	0	17,200	0
Pooled SBA	36,040	0	36,040	0
Other	962	962	0	0

Total Securities Available For Sale	$409,709	$962	$408,747	$ 0
Interest rate swaps	$149	$0	$149	$ 0
Trading Securities:				
Corporate equity securities	$5,125	$5,125	$0	$ 0
Mutual funds	1,499	1,499	0	0
Certificates of deposit	220	220	0	0
Corporate notes and bonds	254	254	0	0
U.S. Government sponsored entities	52	0	52	0
Total Trading Securities	$7,150	$7,098	$52	$ 0
Liabilities				
Interest rate swaps	$(310)	$0	$(310)	$ 0

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The table below presents a reconciliation of the fair value of securities available for sale measured on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2017:

	Pooled trust preferred
Balance, January 1, 2017	$ 2,049
Total gains or (losses):	
Included in other comprehensive income (loss)	134
Sale of available-for-sale securities	(2,183)
Balance, December 31, 2017	$ 0

There were no Level 3 financial instruments carried at fair value on a recurring basis at December 31, 2018.

Assets and liabilities measured at fair value on a non-recurring basis are as follows at December 31, 2018 and 2017:

		Fair Value Measurements at December 31, 2018 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial, industrial, and agricultural	$ 783	0	0	$ 783
Commercial mortgages	$ 224	0	0	$ 224

		Fair Value Measurements at December 31, 2017 Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans:				
Commercial mortgages	$ 11	0	0	$ 11

Impaired loans measured for impairment using the fair value of collateral for collateral dependent loans had a recorded investment of $2,124, with a valuation allowance of $1,117 as of December 31, 2018, resulting in an additional provision for loan losses of $483 for the year then ended. Impaired loans measured for impairment using the fair value of collateral for collateral dependent loans had a recorded investment of $646, with a valuation allowance of $635 as of December 31, 2017, resulting in an additional benefit for loan losses of $(418) for the year then ended.

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

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2018:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans – commercial, industrial, and agricultural	$783	Valuation of third party appraisal on underlying collateral	Loss severity rates	55%-60% (57%)
Impaired loans – commercial mortgages	$224	Valuation of third party appraisal on underlying collateral	Loss severity rates	15%-39% (37%)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2017:

	Fair value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans – commercial mortgages	$11	Valuation of third party appraisal on underlying collateral	Loss severity rates	10% (10%)

Fair Value of Financial Instruments

The following table presents the carrying amount and fair value of financial instruments at December 31, 2018:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$45,563	$45,563	$0	$ 0	$45,563
Securities available for sale	516,863	934	515,929	0	516,863
Trading securities	7,786	7,735	51	0	7,786
Loans held for sale	367	0	368	0	368
Net loans	2,454,853	0	0	2,433,417	2,433,417
FHLB and other equity interests	24,508	n/a	n/a	n/a	n/a
Interest rate swaps	485	0	485	0	485
Accrued interest receivable	10,843	6	3,368	7,469	10,843
LIABILITIES					
Deposits	$(2,610,786)	$(2,215,349)	$(397,370)	$ 0	$(2,612,719)
FHLB and other borrowings	(245,117)	0	(242,592)	0	(242,592)
Subordinated debentures	(70,620)	0	(65,794)	0	(65,794)
Interest rate swaps	(686)	0	(686)	0	(686)
Accrued interest payable	(863)	0	(863)	0	(863)

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The following table presents the carrying amount and fair value of financial instruments at December 31, 2017:

	Carrying Amount	Fair Value Measurement Using: Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash and cash equivalents	$35,345	$35,345	$0	$ 0	$35,345
Securities available for sale	409,709	962	408,747	0	409,709
Trading securities	7,150	7,098	52	0	7,150
Loans held for sale	852	0	853	0	853
Net loans	2,126,266	0	0	2,126,824	2,126,824
FHLB and other equity interests	21,517	n/a	n/a	n/a	n/a
Interest rate swaps	149	0	149	0	149
Accrued interest receivable	9,254	6	2,651	6,597	9,254
LIABILITIES					
Deposits	$(2,167,815)	$(1,802,844)	$(362,756)	$ 0	$(2,165,600)
FHLB and other borrowings	(257,359)	0	(257,361)	0	(257,361)
Subordinated debentures	(70,620)	0	(63,575)	0	(63,575)
Interest rate swaps	(310)	0	(310)	0	(310)
Accrued interest payable	(554)	0	(554)	0	(554)

The methods utilized to estimate the fair value of financial instruments at December 31, 2017 did not necessarily represent an exit price. In accordance with our adoption of ASU 2016-01 in 2018, the methods utilized to measure the fair value of financial instruments at December 31, 2018 represent an approximation of exit price; however, an actual exit price may differ.

While estimates of fair value are based on management’s judgment of the most appropriate factors as of the balance sheet date, there is no assurance that the estimated fair values would have been realized if the assets had been disposed of or the liabilities settled at that date, since market values may differ depending on various circumstances. The estimated fair values would also not apply to subsequent dates. The fair value of other equity interests is based on the net asset values provided by the underlying investment partnership. ASU 2015-7 removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient and related disclosures.In addition, other assets and liabilities that are not financial instruments, such as premises and equipment, are not included in the disclosures.

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

21. Revenue from Contracts with Customers

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Corporation's Non-Interest Income by revenue stream and reportable segment for the years ended December 31, 2018 and 2017. Items outside the scope of ASC 606 are noted as such.

	December 31, 2018	December 31, 2017 (2)
Non-interest Income		
Service charges on deposit accounts	$ 5,759	$ 4,809
Wealth and asset management fees	4,172	3,724

Mortgage banking (1)	1,019	906
Card processing and interchange income	4,261	3,763
Net realized gains on available-for-sale securities (1)	0	1,543
Other income	5,512	6,690
Total non-interest income	$ 20,723	$ 21,435

(1) Not within scope of ASU 2014-9

(2) The Corporation elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

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Management determined that the primary sources of revenue emanating from interest and dividend income on loans and investment securities along with non-interest revenue resulting from security gains, loan servicing, gains on the sale of loans, commitment fees, fees from financial guarantees, certain credit cards fees, gains (losses) on sale of other real estate owned not financed by the Corporation, is not within the scope of ASU 2014-9. As a result, no changes were made during the period related to these sources of revenue, which comprised 90.7% of the total revenue of the Corporation for the year ended December 31, 2018.
The types of non-interest income within the scope of the standard that are material to the consolidated financial statements are services charges on deposit accounts, wealth and asset management fee income, card processing and interchange income, and other income.
Service charges on deposit accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed, as that is the point in time the Corporation fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Services charges on deposits are withdrawn from the customer’s account balance.
Wealth and asset management fees: The Corporation earns wealth and asset management fees from its contracts with trust and brokerage customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management at month end. Fees for these services are billed to customers on a monthly or quarterly basis and are recorded as revenue at the end of the period for which the wealth and asset management services have been performed. Other performance obligations, such as the delivery of account statements to customers, are generally considered immaterial to the overall transaction price.
Card processing and interchange income: The Corporation earns interchange fees from check card and credit card transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.
Other income: The Corporation's other income includes sources such as bank owned life insurance, certain service fees, gains (losses) on sales of fixed assets, and gains (losses) on sale of other real estate owned. The service fees are recognized in the same manner as the service charges mentioned above. While gains on the sale of other real estate owned are generally within the scope of ASU 2014-9, the Corporation does not finance the sale of transactions and as such there is no change in revenue recognition.

22. Contingency

On March 28, 2018, the Corporation received a notice of assessment from the Pennsylvania Department of Revenue that reported a sales tax assessment amount of $824 plus interest and penalties of $339 resulting in a total assessed balance of $1,163. The notice of assessment covers the period from January 1, 2013 through July 31, 2016. The Corporation has evaluated the specific items on which sales tax has been assessed in conjunction with its legal counsel and has determined that it is probable that the Corporation has some liability based on a review of the Pennsylvania tax laws that apply to the assessed items. The Corporation’s reasonable estimate of this liability is $96, which has been accrued and reported in state and local tax expense in the accompanying consolidated statement of income for the year ended December 31, 2018. The remaining balance that has not been accrued relates primarily to sales tax assessments associated with data processing and banking equipment maintenance, which the Corporation’s management and legal counsel have concluded were improperly assessed based on current Pennsylvania sales tax law. The Corporation appealed the notice of assessment to the Pennsylvania Board of Appeals and is awaiting a decision. The ultimate resolution of this matter, which may take in excess of one year, could result in an additional expense up to the total amount assessed.

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23. Parent Company Only Financial Information

CONDENSED BALANCE SHEETS	December 31,	
	2018	2017
Assets		
Cash	$355	$1,556
Trading securities	623	580
Investment in bank subsidiary	310,574	290,156
Investment in non-bank subsidiaries	20,686	21,781
Deferreds and current receivable	1,459	2,055
Other assets	1,749	2,059
Total assets	$335,446	$318,187
Liabilities		
Borrowings from subsidiary	$200	$1,400
Subordinated debentures	70,620	70,620
Other liabilities	1,796	2,257
Total liabilities	72,616	74,277
Stockholders' equity	262,830	243,910
Total liabilities and stockholders' equity	$335,446	$318,187

CONDENSED STATEMENTS OF INCOME	Year Ended December 31,		
Income:	2018	2017	2016
Dividends from:			
Bank subsidiary	$12,029	$8,840	$8,700
Non-bank subsidiaries	3,000	2,250	1,200
Other	212	220	230
Total income	15,241	11,310	10,130
Expenses	(5,184)	(4,957)	(2,611)
Income before income taxes and equity in undistributed net income of subsidiaries:	10,057	6,353	7,519
Income tax benefit	1,116	1,614	813
Equity in undistributed net income of bank subsidiary	24,031	17,430	13,184
Distributions in excess of net income of non-bank subsidiaries	(1,485)	(1,537)	(976)
Net income	$33,719	$23,860	$20,540

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CONDENSED STATEMENTS OF CASH FLOWS	Year Ended December 31,		
	2018	2017	2016
Net income			
Adjustments to reconcile net income to net cash provided by operating activities:	$33,719	$23,860	$20,540
Equity in undistributed net income of bank subsidiary	(24,031)	(17,430)	(13,184)
Distributions in excess of net income of non–bank subsidiaries	1,485	1,537	976
Net unrealized gains on trading securities	0	(12)	(58)
Decrease (increase) in other assets	872	(549)	(1,277)
Increase in other liabilities	1,045	791	1,645
Net cash provided by operating activities	13,090	8,197	8,642
Cash flows from investing activities			
Investment in non-bank subsidiaries	(400)	0	0
Investment in bank subsidiaries	0	(15,400)	(49,223)
Net cash used in investing activities	(400)	(15,400)	(49,223)
Cash flows from financing activities:			
Dividends paid	(10,237)	(10,094)	(9,546)
Proceeds from issuance of long term debt	0	0	50,000
Purchase of treasury stock	(2,454)	(1,877)	(44)
Net proceeds from issuance of common stock	0	19,294	0
Net advance (to) from subsidiary	(1,200)	0	50
Net cash provided by (used in) financing activities	(13,891)	7,323	40,460
Net increase (decrease) in cash	(1,201)	120	(121)
Cash beginning of year	1,556	1,436	1,557
Cash end of year	$355	$1,556	$1,436

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24. Other Comprehensive Income

Other comprehensive income components and related tax effects were as follows for the years ended December 31, 2018, 2017, and 2016:

	2018	2017	2016
Unrealized holding losses on available for sale securities	$(5,073)	$(136)	$(1,838)
Less reclassification adjustment for gains recognized in earnings	0	(160)	(83)
Net unrealized losses	(5,073)	(296)	(1,921)
Tax effect	1,066	104	672
Net-of-tax amount	(4,007)	(192)	(1,249)
Unrealized holding gains (losses) on available for sale securities for which a portion of an other-than-temporary impairment has been recognized in earnings	0	134	(442)
Less reclassification adjustment for gains recognized in earnings	0	(1,383)	(922)
Net unrealized gains	0	(1,249)	(1,364)
Tax effect	0	437	477
Net-of-tax amount	0	(812)	(887)
Actuarial gain (loss) on postemployment health care plan	404	808	(282)
Net amortization of transition obligation and actuarial gain	84	192	184
Net unrealized gain (loss) on postemployment health care plan	488	1,000	(98)
Tax effect	(102)	(175)	34
Net-of-tax amount	386	825	(64)
Unrealized gain (loss) on interest rate swap	(204)	10	(63)
Less reclassification adjustment for losses recognized in earnings	164	288	340
Net unrealized gain (loss)	(40)	298	277
Tax effect	8	(104)	(97)
Net-of-tax amount	(32)	194	180
Other comprehensive income (loss)	$(3,653)	$15	$(2,020)

The following is a summary of the change in the accumulated other comprehensive income (loss) balance, net of tax, for the years ended December 31, 2018, 2017, and 2016.

	Balance 12/31/17	Comprehensive Income (Loss)	Reclassification of Disproportionate Tax Effect	Balance 12/31/18
Unrealized gains (losses) on securities available for sale	$ 473	$ (4,007)	$ 0	$(3,534)
Unrealized gain (loss) on postretirement benefits plan	(690)	386	0	(304)
Unrealized loss on interest rate swap	(126)	(32)	0	(158)
Total	$ (343)	$ (3,653)	$ 0	$(3,996)

	Balance 12/31/16	Comprehensive Income (Loss)	Reclassification of Disproportionate Tax Effect	Balance 12/31/17
Unrealized gains (losses) on securities available for sale	$ 1,393	$ (1,004)	$ 84	$ 473
Unrealized gain (loss) on postretirement benefits plan	(1,217)	825	(298)	(690)
Unrealized loss on interest rate swap	(297)	194	(23)	(126)
Total	$ (121)	$ 15	$ (237)	$ (343)

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	Balance 1/1/16	Comprehensive Income (Loss)	Reclassification of Disproportionate Tax Effect	Balance 12/31/16
Unrealized gains (losses) on securities available for sale	$3,529	$ (2,136)	$ 0	$1,393
Unrealized gain (loss) on postretirement benefits plan	(1,153)	(64)	0	(1,217)
Unrealized loss on interest rate swap	(477)	180	0	(297)
Total	$1,899	$ (2,020)	$ 0	$(121)

25. Quarterly Financial Data (Unaudited)

The table below sets forth the Corporation's unaudited condensed consolidated quarterly results of operations data for the years ended December 31, 2018 and December 31, 2017 (in thousands, except per share data). In the opinion of management, all adjustments (consisting of normal recurring accruals) that are necessary for a fair presentation of the quarterly results have been reflected in the data. It is also management's opinion, however, that quarterly results of operations data are not indicative of the financial results to be achieved in succeeding years or quarters. In order to obtain a more accurate indication of performance, one should review the financial and operating results, changes in stockholders' equity and cash flows for a period of several years.

	Quarters Ended in 2018				Quarters Ended in 2017			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Total interest and dividend income	$29,387	$32,099	$34,040	$36,344	$25,104	$27,003	$28,069	$28,698
Net interest income	24,100	25,826	26,878	28,116	21,202	22,989	23,517	23,801
Provision for loan losses	1,631	1,905	1,095	1,441	1,016	1,134	1,400	3,105
Non-interest income	4,751	5,606	5,933	4,433	5,773	5,089	5,032	5,541
Non-interest expense	18,999	19,543	20,794	20,006	17,034	17,797	17,618	17,588
Net income	7,097	8,441	9,236	8,945	6,480	6,683	7,246	3,451
Net income per share, basic	0.46	0.55	0.60	0.59	0.43	0.44	0.47	0.23
Net income per share, diluted	0.46	0.55	0.60	0.59	0.43	0.44	0.47	0.23

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Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
CNB Financial Corporation
Clearfield, Pennsylvania

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of CNB Financial Corporation (the "Corporation") as of December 31, 2018 and 2017, the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Corporation's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Crowe LLP

We have served as the Corporation's auditor since 2000.

Cleveland, Ohio
March 7, 2019

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

There was no significant change in the Corporation’s internal control over financial reporting that occurred during the quarter ended December 31, 2018 that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting

Management’s Report on Internal Control Over Financial Reporting

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Corporation’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S.
The Corporation’s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation’s assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Crowe LLP, an independent registered public accounting firm that audited the Corporation’s financial statements, as stated in their report which is located in Item 8 of this Annual Report on Form 10-K.

Joseph B. Bower, Jr.	Brian W. Wingard
President and Chief Executive Officer	Treasurer and Principal Financial Officer
Date: March 7, 2019	Date: March 7, 2019

ITEM 9B. OTHER INFORMATION

None.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference from our definitive Proxy Statement for our 2019 Annual Meeting of Stockholders (the “2019 Proxy Statement”), which we will file with the SEC on or before 120 days after our 2018 fiscal year-end, and which will appear in the 2019 Proxy Statement under the captions “Proposal 1. Election of Directors,” "Executive Officers," “Corporate Governance – Meetings and Committees of the Board of Directors – Audit Committee,” "Certain Transactions" and “Other Matters – Section 16(a) Beneficial Ownership Reporting Compliance.”

The Corporation’s Board of Directors has approved a Code of Ethics for Officers and Directors. The Code of Ethics can be found at the Bank’s website, www.cnbbank.bank.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 is incorporated herein by reference from the 2019 Proxy Statement, including the information in the 2019 Proxy Statement appearing under the captions “Compensation of Executive Officers,” "Compensation Committee Report" and “Compensation of Directors.”

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

Information required by this Item 12 is incorporated herein by reference from the 2019 Proxy Statement, including the information in the 2019 Proxy Statement appearing under the captions “Stock Ownership” and “Compensation of Executive Officers – Equity Compensation Plan Information.”

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

Information required by this Item 13 is incorporated herein by reference from the 2019 Proxy Statement, including the information in the 2019 Proxy Statement appearing under the captions “Proposal 1. Election of Directors," "Corporate Governance” and “Certain Transactions.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 is incorporated herein by reference from the 2019 Proxy Statement, including the information in the 2019 Proxy Statement appearing under the captions “Corporate Governance – Meetings and Committees of the Board of Directors – Audit Committee” and “Concerning the Independent Registered Public Accounting Firm.”

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) The following consolidated financial statements are set forth in Part II, Item 8:
Consolidated Balance Sheets as of December 31, 2018 and 2017
Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2018, 2017, and 2016
Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017, and 2016
Notes to Consolidated Financial Statements
(a)(2) Financial statement schedules are not applicable or are included in the consolidated financial statements or related notes.
(a)(3) The following exhibits (asterisk denotes management contract or compensatory plan) are filed as a part of this report:

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of CNB Financial Corporation (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed on March 24, 2006)
3.2	Bylaws of CNB Financial Corporation, as amended and restated (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on April 24, 2017)
10.1	Executive Employment Contract, dated May 17, 2016, by and between CNB Financial Corporation, CNB Bank and Joseph B. Bower, Jr. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 20, 2016)
10.2	CNB Financial Corporation 1999 Stock Incentive Plan (incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed on March 29, 1999)
10.3	CNB Financial Corporation 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10(iii)-4 to the Registrant's Registration Statement on Form S-3 (File No. 333-159941) filed on November 12, 2009)
10.4	Executive Employment Contract, dated February 16, 2012, by and between CNB Bank and Mark D. Breakey (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on March 9, 2012)
10.5	Executive Employment Contract, dated February 8, 2012, by and between CNB Financial Corporation, CNB Bank and Richard L. Greslick, Jr. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 9, 2012)
10.6	Executive Employment Contract, dated September 23, 2013, by and between CNB Bank and Joseph E. Dell, Jr. (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on March 7, 2014)
10.7	Executive Employment Contract, dated March 24, 2014, by and between CNB Financial Corporation, CNB Bank and Brian W. Wingard (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report

	on Form 8-K filed on March 25, 2014)
21	List of subsidiaries of CNB Financial Corporation, filed herewith
23.1	Consent of Crowe LLP

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Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Additional information mailed to stockholders with the Registrant's Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders and Annual Report on Form 10-K for the year ended December 31, 2018
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNB FINANCIAL CORPORATION
(Registrant)

Date: March 7, 2019 By: /s/ Joseph B. Bower, Jr.
JOSEPH B. BOWER, JR.
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 8, 2018.

/s/ Joseph B. Bower, Jr.

JOSEPH B. BOWER, JR.

President and Director
(Principal Executive Officer)

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

/s/ Richard L. Greslick, Jr.

RICHARD L. GRESLICK, JR.

Secretary and Director

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

/s/ Brian W. Wingard

BRIAN W. WINGARD

Treasurer
(Principal Financial and Accounting Officer)

/s/ Francis X. Straub, III
FRANCIS X. STRAUB,
III, Director

/s/ Robert W. Montler

ROBERT W. MONTLER, Director

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

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

/s/ Deborah Dick Pontzer
DEBORAH DICK PONTZER, Director

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

/s/ Nicholas N. Scott
NICHOLAS N. SCOTT, Director