

FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly period ended September 30, 2015

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at October 31, 2015
Common Stock, No Par Value	26,971,084 shares

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Income</u>	3
<u>Consolidated Statements of Comprehensive Income</u>	4
<u>Consolidated Statement of Stockholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	7

Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
---	----

Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
--	----

Item 4 <u>Controls and Procedures</u>	45
---------------------------------------	----

<u>PART II - OTHER INFORMATION</u>	45
------------------------------------	----

Item 1 <u>Legal Proceedings</u>	45
---------------------------------	----

Item 1A <u>Risk Factors</u>	46
-----------------------------	----

Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
---	----

Item 3 <u>Defaults Upon Senior Securities</u>	46
---	----

Item 4 <u>Mine Safety Disclosures</u>	46
---------------------------------------	----

Item 5 <u>Other Information</u>	46
---------------------------------	----

Item 6 <u>Exhibits</u>	47
------------------------	----

<u>SIGNATURES</u>	48
-------------------	----

10-Q Certifications

Section 906 Certifications

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	September 30,	December 31,
(Unaudited)	2015	2014
ASSETS		
Cash and due from banks	\$ 16,430	\$ 11,410
Federal funds sold and other	17,914	16,018
TOTAL CASH AND CASH EQUIVALENTS	34,344	27,428
Securities available for sale	379,138	389,829
Loans held for sale	566	511
Loans	1,183,016	663,852
Less allowance for loan losses	8,294	7,632
NET LOANS	1,174,722	656,220
Premises and equipment, net	23,338	17,049
Goodwill	32,272	5,591
Other intangibles	6,993	3,222
Bank owned life insurance	25,746	16,367
Other assets	30,678	20,750
TOTAL ASSETS	\$ 1,707,797	\$ 1,136,967
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 299,136	\$ 184,697
Interest-bearing	1,031,113	731,006
TOTAL DEPOSITS	1,330,249	915,703
Short-term borrowings	163,429	59,136
Long-term borrowings	16,272	28,381
Other liabilities	11,696	10,187
TOTAL LIABILITIES	1,521,646	1,013,407
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 35,000,000 shares; issued 26,294,014 in 2015 and 19,031,059 in 2014	165,344	106,021
Retained earnings	23,948	20,944
Accumulated other comprehensive income	1,335	1,093
Treasury stock, at cost; 619,447 shares in 2015 and 622,447 in 2014	(4,476)	(4,498)
TOTAL STOCKHOLDERS' EQUITY	186,151	123,560
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,707,797	\$ 1,136,967

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Nine Months Ended	
(Unaudited)	Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$13,385	\$7,950	\$29,703	\$23,023
Taxable securities	1,369	1,803	4,421	5,512
Tax exempt securities	783	605	2,060	1,900
Dividends	48	47	142	142
Federal funds sold and other interest income	9	8	20	17
TOTAL INTEREST AND DIVIDEND INCOME	15,594	10,413	36,346	30,594
INTEREST EXPENSE				
Deposits	909	987	2,675	3,070
Short-term borrowings	59	11	86	35
Long-term borrowings	88	130	306	396
TOTAL INTEREST EXPENSE	1,056	1,128	3,067	3,501
NET INTEREST INCOME	14,538	9,285	33,279	27,093
Provision for loan losses	1,220	425	2,520	1,055
NET INTEREST INCOME AFTER PROVISION FOR				
LOAN LOSSES	13,318	8,860	30,759	26,038
NONINTEREST INCOME				
Service charges on deposit accounts	929	711	2,204	1,915
Bank owned life insurance income	184	115	488	342
Trust fees	1,482	1,561	4,638	4,610
Insurance agency commissions	130	85	394	255
Security gains	3	1	48	85
Retirement plan consulting fees	423	395	1,705	1,392
Investment commissions	332	378	886	815
Net gains on sale of loans	415	114	694	250
Other operating income	787	520	2,074	1,446
TOTAL NONINTEREST INCOME	4,685	3,880	13,131	11,110
NONINTEREST EXPENSES				
Salaries and employee benefits	7,244	5,330	18,449	15,448
Occupancy and equipment	1,368	1,145	3,680	3,395
State and local taxes	400	222	888	685
Professional fees	738	648	1,760	1,814
Merger related cost	2,499	0	4,656	0
Advertising	344	250	843	727
FDIC insurance	256	184	611	555
Intangible amortization	304	192	638	575
Core processing charges	643	418	1,406	1,168

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Other operating expenses	1,725	1,387	4,428	3,928
TOTAL NONINTEREST EXPENSES	15,521	9,776	37,359	28,295
INCOME BEFORE INCOME TAXES	2,482	2,964	6,531	8,853
INCOME TAXES	625	688	1,651	2,035
NET INCOME	\$1,857	\$2,276	\$4,880	\$6,818
EARNINGS PER SHARE - basic and diluted	\$0.07	\$0.12	\$0.23	\$0.36

See accompanying notes

3

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)			
	For the Three Months Ended September		For the Nine Months Ended September	
	30, 2015	30, 2014	30, 2015	September 30, 2014
(Unaudited)	2015	2014	2015	2014
NET INCOME	\$1,857	\$ 2,276	\$4,880	\$ 6,818
Other comprehensive income:				
Net unrealized holding gains on available for sale securities	3,557	527	421	7,547
Reclassification adjustment for (gains) realized in income	(3)	(1)	(48)	(85)
Net unrealized holding gains	3,554	526	373	7,462
Income tax effect	(1,244)	(184)	(131)	(2,612)
Other comprehensive income, net of tax	2,310	342	242	4,850
TOTAL COMPREHENSIVE INCOME	\$4,167	\$ 2,618	\$5,122	\$ 11,668

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars) For the Nine Months Ended September 30, 2015
(Unaudited)	
COMMON STOCK	
Beginning balance	\$ 106,021
Issued 7,262,955 shares as part of business acquisitions	59,048
Stock compensation expense for 320,980 shares	275
Ending balance	165,344
RETAINED EARNINGS	
Beginning balance	20,944
Net income	4,880
Dividends declared at \$.09 per share	(1,876)
Ending balance	23,948
ACCUMULATED OTHER COMPREHENSIVE INCOME	
Beginning balance	1,093
Other comprehensive income	242
Ending balance	1,335
TREASURY STOCK, AT COST	
Beginning balance	(4,498)
Reissued 3,000 shares under the Equity Incentive Plan	22
Ending balance	(4,476)
TOTAL STOCKHOLDERS' EQUITY	\$ 186,151

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	Nine Months Ended	
	September 30,	September 30,
(Unaudited)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$4,880	\$ 6,818
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	2,520	1,055
Depreciation and amortization	1,689	1,487
Net amortization of securities	1,510	1,105
Security gains	(48)	(85)
Stock compensation expense	275	0
Loss on sale of other real estate owned	18	22
Earnings on bank owned life insurance	(488)	(342)
Origination of loans held for sale	(12,295)	(11,599)
Proceeds from loans held for sale	12,934	11,112
Net gains on sale of loans	(694)	(250)
Net change in other assets and liabilities	(2,978)	(1,006)
NET CASH FROM OPERATING ACTIVITIES	7,323	8,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	44,047	35,868
Proceeds from sales of securities available for sale	58,240	34,169
Purchases of securities available for sale	(41,346)	(42,496)
Loan originations and payments, net	(91,721)	(17,884)
Proceeds from sale of other real estate owned	552	64
Purchase of bank owned life insurance	(6,000)	0
Additions to premises and equipment	(1,160)	(888)
Net cash received in business acquisitions	21,303	0
NET CASH FROM INVESTING ACTIVITIES	(16,085)	8,833
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(9,115)	(2,216)
Net change in short-term borrowings	38,756	(9,585)
Repayment of long-term borrowings	(12,109)	(1,205)
Cash dividends paid	(1,876)	(1,685)
Proceeds from reissuance of treasury shares	22	32
Acquisition of treasury shares	0	(1,710)
NET CASH FROM FINANCING ACTIVITIES	15,678	(16,369)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,916	781
Beginning cash and cash equivalents	27,428	27,513
Ending cash and cash equivalents	\$34,344	\$ 28,294
Supplemental cash flow information:		
Interest paid	\$2,955	\$ 3,532

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Income taxes paid	\$1,780	\$1,205
Supplemental noncash disclosures:		
Transfer of loans to other real estate	\$734	\$297
Security purchases not settled	\$0	\$3,008
Issuance of stock for business acquisitions	\$59,048	\$0

See accompanying notes

6

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (“Company”) is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield (“Bank”). The Company acquired First National Bank of Orrville (“First National Bank”) a subsidiary of National Bancshares Corporation (“NBOH”) during the second quarter of this year and consolidated all of First National Bank’s activity with the Bank. The Company provides trust services through its subsidiary, Farmers Trust Company (“Trust”), retirement consulting services through National Associates, Inc. (“NAI”) and insurance services through the Bank’s subsidiary, Farmers National Insurance (“Insurance”). In addition to the Insurance subsidiary, the Bank has created Farmers of Canfield Investment Co. (“Investments”), with the primary purpose of investing in municipal securities. The consolidated financial statements include the accounts of the Company, the Bank and its subsidiaries, along with the Trust and NAI. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2014 Annual Report to Shareholders included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year. Certain items included in the prior period financial statements were reclassified to conform to the current period presentation. There was no effect on net income or total stockholders’ equity.

Estimates:

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

Segments:

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

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists of unrealized gains and losses on securities available for sale and changes in the funded status of the post-retirement health plan, which are recognized as separate components of equity, net of tax effects. For all periods presented there was no change in the funded status of the post-retirement health plan.

Business Acquisitions:

On October 1, 2015, the Company completed the acquisition of Tri-State 1st Banc, Inc. (“Tri-State”), the parent company of 1st National Community Bank (“FNCB”). Pursuant to the terms of the Merger Agreement, common shareholders of Tri-State were entitled to receive 1.747 common shares, without par value, of the Company (the “Company Common Shares”), or \$14.20 in cash, for each common share, without par value, of Tri-State (the “Tri-State Common Shares”), subject to proration provisions specified in the Merger Agreement that provide for a targeted aggregate split of total consideration consisting of 75% Company Common Shares and 25% cash. Preferred shareholders of Tri-State received \$13.60 in cash for each share of Series A Preferred Stock, without par value, of

Tri-State. Total consideration actually paid was in the form of \$3.6 million in cash and \$10.7 million worth of the Company’s stock on October 1, 2015. Management is still in the process of estimating the fair market value of the assets acquired and the liabilities assumed. Since the business combination was completed on October 1, 2015 results of operations and statements of condition will be reported in the fourth quarter of this year.

On June 19, 2015, the Company completed the acquisition of all outstanding stock of National Bancshares Corporation (“NBOH”), the parent company of First National Bank of Orrville (“First National Bank”). The transaction involved both cash and 7,262,955 shares of stock totaling \$74.8 million. First National Bank of Orrville branches became branches of Farmers National Bank of Canfield. Pursuant to the Agreement, each shareholder of NBOH received either \$32.15 per share in cash or 4.034 shares of Farmers’ common stock, subject to an overall limitation of 80% of the shares of NBOH being exchanged for stock and 20% for cash.

Goodwill of \$26.7 million, which is recorded on the balance sheet of the Bank, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill is not expected to be deductible for income tax purposes. The fair value of other intangible assets of \$4.4 million is related to core deposits. The following table summarizes the consideration paid for NBOH and the amounts of the assets acquired and liabilities assumed on the closing date of the acquisition.

(In Thousands of Dollars)	
Consideration	
Cash	\$ 15,732
Stock	59,048
Fair value of total consideration transferred	\$ 74,780
Assets acquired and liabilities assumed	
Cash and due from financial institutions	\$ 37,035
Securities available for sale	51,340
Net loans	430,035
Premises and equipment	6,105
Bank owned life insurance	2,891
Core deposit intangible	4,409
Other assets	7,996
Total assets	539,811
Fair value of liabilities assumed	
Deposits	423,661
Short-term borrowings	65,537
Accrued interest payable and other liabilities	2,514
Total liabilities	491,712
Net assets acquired	\$ 48,099
Goodwill created	26,681
Total net assets acquired	\$ 74,780

Valuation of some assets acquired or created including but not limited to net loans and goodwill are preliminary and could be subject to change.

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2014. The pro forma information includes adjustments for amortization of intangibles arising from the transaction and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that

would have occurred had the transactions been effective on the assumed dates.

	For Three Months Ended September 30, 2014	For Nine Months Ended September 30, 2015 2014	
(In thousands of dollars except per share results)			
Net interest income	\$ 13,856	\$42,949	\$40,073
Net income	\$ 3,819	\$9,023	\$10,945
Basic and diluted earnings per share	\$ 0.15	\$0.35	\$0.43

On July 1, 2013, the Company completed the acquisition of all outstanding stock of the retirement planning consultancy National Associates, Inc. (“NAI”) of Rocky River, Ohio. The transaction involved both cash and stock totaling \$4.4 million, including up to \$1.5 million of future cash payments contingent upon NAI meeting income performance targets based on growth in EBITDA with an initial fair value of \$920 thousand. The measurement period is defined, in essence, as “the twelve month period ending on the second anniversary of the closing date.” Based on actual EBITDA growth the Company recognized \$495 thousand and \$1.3 million of

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

expense during the three and nine month periods ended September 30, 2015 after writing the fair value down to \$156 thousand in 2014. The final payment of \$1.5 million was made to satisfy the contingent consideration clause of the agreement during the period ended September 30, 2015.

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at September 30, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
U.S. Treasury and U.S. government sponsored entities	\$ 18,873	\$ 277	\$ (1)	\$ 19,149
State and political subdivisions	123,731	1,685	(760)	124,656
Corporate bonds	1,032	6	(4)	1,034
Mortgage-backed securities - residential	197,506	2,512	(1,018)	199,000
Collateralized mortgage obligations	15,352	2	(562)	14,792
Small Business Administration	20,577	1	(377)	20,201
Equity securities	202	109	(5)	306
Totals	\$ 377,273	\$ 4,592	\$ (2,727)	\$ 379,138

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
U.S. Treasury and U.S. government sponsored entities	\$ 24,515	\$ 418	\$ (112)	\$ 24,821
State and political subdivisions	90,369	2,183	(671)	91,881
Corporate bonds	936	3	(8)	931
Mortgage-backed securities - residential	223,216	2,395	(1,249)	224,362
Collateralized mortgage obligations	25,988	98	(911)	25,175
Small Business Administration	23,193	1	(775)	22,419
Equity securities	120	121	(1)	240
Totals	\$ 388,337	\$ 5,219	\$ (3,727)	\$ 389,829

Proceeds from the sale of portfolio securities were \$3.4 million during the three month period and \$58.2 million during the nine month periods ended September 30, 2015. Gross gains of \$30 thousand and \$139 thousand and gross losses of \$27 thousand and \$91 thousand were realized on these sales during the three and nine month periods ended September 30, 2015. Gross gains from the sale of portfolio securities were \$2 thousand and \$335 thousand along with gross losses of \$1 thousand and \$250 thousand during the three and nine month periods ended September 30, 2014.

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

(In Thousands of Dollars)	September 30, 2015	
	Amortized Cost	Fair Value
Maturity		
Within one year	\$17,435	\$17,597
One to five years	67,442	68,170
Five to ten years	49,766	50,142
Beyond ten years	8,993	8,930
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	233,435	233,993
Total	\$377,071	\$378,832

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

The following table summarizes the investment securities with unrealized losses at September 30, 2015 and December 31, 2014, aggregated by major security type and length of time in a continuous unrealized loss position.

(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2015						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$101	\$ 0	\$200	\$ (1)	\$301	\$ (1)
State and political subdivisions	28,130	(270)	13,539	(490)	41,669	(760)
Corporate bonds	0	0	479	(4)	479	(4)
Mortgage-backed securities - residential	48,146	(235)	42,337	(783)	90,483	(1,018)
Collateralized mortgage obligations	0	0	13,292	(562)	13,292	(562)
Small Business Administration	0	0	20,116	(377)	20,116	(377)
Equity securities	36	(5)	0	0	36	(5)
Total	\$76,413	\$ (510)	\$89,963	\$ (2,217)	\$166,376	\$ (2,727)

(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2014						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$498	\$ (2)	\$10,159	\$ (110)	\$10,657	\$ (112)
State and political subdivisions	987	(11)	24,063	(660)	25,050	(671)
Corporate bonds	0	0	476	(8)	476	(8)
Mortgage-backed securities - residential	25,770	(202)	55,576	(1,047)	81,346	(1,249)
Collateralized mortgage obligations	0	0	19,541	(911)	19,541	(911)
Small Business Administration	0	0	22,319	(775)	22,319	(775)
Equity securities	26	(1)	0	0	26	(1)
Total	\$27,281	\$ (216)	\$132,134	\$ (3,511)	\$159,415	\$ (3,727)

Other-Than-Temporary-Impairment

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

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

As of September 30, 2015, the Company’s security portfolio consisted of 411 securities, 135 of which were in an unrealized loss position. The majority of the unrealized losses on the Company’s securities are related to its holdings of mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities, and Small Business Administration securities as discussed below.

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

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

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

Loans:

Loan balances were as follows:

	September 30, 2015	December 31, 2014
(In Thousands of Dollars)		
Originated loans:		
Commercial real estate		
Owner occupied	\$99,736	\$74,829
Non-owner occupied	130,327	122,228
Other	47,841	26,137
Commercial	140,402	120,493
Residential real estate		
1-4 family residential	165,625	153,055
Home equity lines of credit	37,282	31,255
Consumer		
Indirect	124,709	120,931
Direct	14,588	9,071
Other	4,302	3,626
Subtotal	\$764,812	\$661,625
Net deferred loan costs	2,482	2,227
Allowance for loan losses	(8,294)	(7,632)
Total originated loans	\$759,000	\$656,220
Acquired loans:		
Commercial real estate		
Owner occupied	\$111,620	\$0
Non-owner occupied	20,429	0
Other	32,228	0
Commercial	64,324	0
Residential real estate		
1-4 family residential	117,234	0
Home equity lines of credit	40,445	0
Consumer		
Direct	29,442	0

Total acquired loans	\$415,722	\$0
Net loans	\$1,174,722	\$656,220

Purchased credit impaired loans

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

	September 30,
(In Thousands of Dollars)	2015
Commercial real estate	
Owner occupied	\$ 835
Non-owner occupied	418
Commercial	957
Total outstanding balance	\$ 2,210
Net carrying value	\$ 2,210

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

	September 30,
(In Thousands of Dollars)	2015
Beginning balance	\$ 0
New loans purchased	361
Accretion of income	(19)
Ending balance	\$ 342

Contractually required payments receivable of loans purchased during the year:

	September 30,
(In Thousands of Dollars)	2015
Commercial real estate	
Owner occupied	\$ 930
Non-owner occupied	492
Commercial	1,116
Total	\$ 2,538
Cash flows expected to be collected at acquisition	\$ 2,811
Fair value of acquired loans at acquisition	\$ 2,811

Cash flows expected to be collected on the purchased credit impaired loans (“PCI”) are estimated at least annually unless specific factors warrant otherwise. The key assumptions considered include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income and principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. There were no adjustments to forecasted cash flows that impacted the allowance for loan losses for the three or nine months ended September 30, 2015.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine month periods ended September 30, 2015 and 2014:

Three Months Ended September 30, 2015

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 2,633	\$ 1,280	\$ 1,548	\$ 1,825	\$ 0	\$7,286
Provision for loan losses	365	84	83	530	158	1,220
Loans charged off	0	(36)	(46)	(549)	0	(631)
Recoveries	103	8	60	248	0	419
Total ending allowance balance	\$ 3,101	\$ 1,336	\$ 1,645	\$ 2,054	\$ 158	\$8,294

Nine Months Ended September 30, 2015

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 2,676	\$ 1,420	\$ 1,689	\$ 1,663	\$ 184	\$7,632
Provision for loan losses	820	197	142	1,387	(26)	2,520
Loans charged off	(520)	(291)	(287)	(1,648)	0	(2,746)
Recoveries	125	10	101	652	0	888
Total ending allowance balance	\$ 3,101	\$ 1,336	\$ 1,645	\$ 2,054	\$ 158	\$8,294

Three Months Ended September 30, 2014

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 2,722	\$ 1,076	\$ 1,784	\$ 1,518	\$ 256	\$7,356
Provision for loan losses	(449)	322	301	353	(102)	425
Loans charged off	0	(6)	(245)	(505)	0	(756)
Recoveries	30	14	23	241	0	308
Total ending allowance balance	\$ 2,303	\$ 1,406	\$ 1,863	\$ 1,607	\$ 154	\$7,333

Nine Months Ended September 30, 2014

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 2,752	\$ 1,219	\$ 1,964	\$ 1,419	\$ 214	\$7,568
Provision for loan losses	(463)	185	378	1,015	(60)	1,055
Loans charged off	(90)	(25)	(525)	(1,602)	0	\$(2,242)
Recoveries	104	27	46	775	0	952
Total ending allowance balance	\$ 2,303	\$ 1,406	\$ 1,863	\$ 1,607	\$ 154	\$7,333

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2015 and December 31, 2014. The recorded investment in loans includes the unpaid principal balance and unamortized loan origination fees and costs, but excludes accrued interest receivable, which is not considered to be material:

September 30, 2015

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses:						
Ending allowance balance attributable to						

loans:

Individually evaluated for impairment	\$ 628	\$ 148	\$ 69	\$ 0	\$ 0	\$ 845
Collectively evaluated for impairment	2,473	1,188	1,576	2,054	158	7,449
Acquired loans	0	0	0	0	0	0
Total ending allowance balance	\$ 3,101	\$ 1,336	\$ 1,645	\$ 2,054	\$ 158	\$ 8,294

Loans:

Loans individually evaluated for impairment	\$ 5,963	\$ 726	\$ 3,541	\$ 71	\$ 0	\$ 10,301
Loans collectively evaluated for impairment	271,236	139,364	198,906	147,487	0	756,993
Acquired loans	163,023	63,367	157,679	29,442		413,511
Acquired with deteriorated credit quality	1,254	957	0	0	0	2,211
Total ending loans balance	\$ 441,476	\$ 204,414	\$ 360,126	\$ 177,000	\$ 0	\$ 1,183,016

December 31, 2014

(In Thousands of Dollars)	Commercial		Residential			Unallocated Total
	Real Estate	Commercial	Real Estate	Consumer		
Allowance for loan losses:						
Ending allowance balance attributable to						
loans:						
Individually evaluated for impairment	\$ 514	\$ 272	\$ 88	\$ 0	\$ 0	\$ 874
Collectively evaluated for impairment	2,162	1,148	1,601	1,663	184	6,758
Total ending allowance balance	\$ 2,676	\$ 1,420	\$ 1,689	\$ 1,663	\$ 184	\$ 7,632
Loans:						
Loans individually evaluated for impairment	\$ 7,139	\$ 1,940	\$ 3,425	\$ 93	\$ 0	\$ 12,597
Loans collectively evaluated for impairment	215,434	118,210	180,428	137,183	0	651,255
Total ending loans balance	\$ 222,573	\$ 120,150	\$ 183,853	\$ 137,276	\$ 0	\$ 663,852

The following tables present information related to impaired loans by class of loans as of September 30, 2015 and December 31, 2014:

(In Thousands of Dollars)	Unpaid		Allowance
	Principal	Recorded	for Loan Losses
	Balance	Investment	Allocated
September 30, 2015			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 1,989	\$ 1,773	\$ 0
Non-owner occupied	591	372	0
Commercial	620	391	0
Residential real estate			
1-4 family residential	2,697	2,351	0
Home equity lines of credit	486	266	0
Consumer	178	71	0
Subtotal	6,561	5,224	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	2,839	2,321	573
Non-owner occupied	1,498	1,497	55
Commercial	516	335	148

Residential real estate			
1-4 family residential	857	836	67
Home equity lines of credit	88	88	2
Subtotal	5,798	5,077	845
Total	\$ 12,359	\$ 10,301	\$ 845

15

	Unpaid Principal	Recorded Investment	Allowance for Loan Losses Allocated
(In Thousands of Dollars)	Balance	Investment	Allocated
December 31, 2014			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 2,448	\$ 2,318	\$ 0
Non-owner occupied	391	391	0
Commercial	531	511	0
Residential real estate			
1-4 family residential	2,421	2,156	0
Home equity lines of credit	476	251	0
Consumer	185	93	0
Subtotal	6,452	5,720	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	2,882	2,882	446
Non-owner occupied	1,548	1,548	68
Commercial	1,444	1,429	272
Residential real estate			
1-4 family residential	944	928	85
Home equity lines of credit	90	90	3
Subtotal	6,908	6,877	874
Total	\$ 13,360	\$ 12,597	\$ 874

The following tables present the average recorded investment in impaired loans by class and interest income recognized by loan class for the three and nine month periods ended September 30, 2015 and 2014:

(In Thousands of Dollars)	Average Recorded Investment		Interest Income Recognized For Three Months Ended	
	For Three Months Ended September 30, 2015	2014	September 30, 2015	2014
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$1,809	\$1,939	\$42	\$9
Non-owner occupied	374	399	10	6
Commercial	395	1,496	6	4
Residential real estate				
1-4 family residential	2,267	2,077	41	16
Home equity lines of credit	270	363	4	2
Consumer	63	138	4	0
Subtotal	5,178	6,412	107	37
With an allowance recorded:				
Commercial real estate				
Owner occupied	2,324	2,068	12	25
Non-owner occupied	1,503	1,563	20	20
Commercial	336	413	1	1
Residential real estate				
1-4 family residential	860	1,062	9	10
Home equity lines of credit	88	91	1	1
Consumer	0	7	0	0
Subtotal	5,111	5,204	43	57
Total	\$10,289	\$11,616	\$150	\$94

(In Thousands of Dollars)	Average Recorded Investment		Interest Income Recognized For Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$2,115	\$2,042	\$87	\$20
Non-owner occupied	380	399	23	14
Commercial	422	1,500	17	13
Residential real estate				
1-4 family residential	2,167	1,689	110	44
Home equity lines of credit	265	269	11	6
Consumer	78	185	11	0
Subtotal	5,427	6,084	259	97
With an allowance recorded:				
Commercial real estate				
Owner occupied	1,987	1,982	60	76
Non-owner occupied	1,520	1,576	60	61
Commercial	636	632	3	3
Residential real estate				
1-4 family residential	917	1,277	29	31
Home equity lines of credit	89	121	3	3
Consumer	0	5	0	0
Subtotal	5,149	5,593	155	174
Total	\$10,576	\$11,677	\$414	\$271

Cash basis interest recognized during the three and nine month periods ended September 30, 2015 and 2014 was materially equal to interest income recognized.

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

The following table presents the recorded investment in nonaccrual and loans past due 90 days or more still on accrual by class of loans as of September 30, 2015 and December 31, 2014:

(In Thousands of Dollars)	September 30, 2015		December 31, 2014	
	Loans Past Due		Loans Past Due	
	90 Days or More		90 Days or More	
	Still Nonaccruing	Still Accruing	Still Nonaccruing	Still Accruing
Originated loans:				
Commercial real estate				
Owner occupied	\$3,376	\$ 0	\$3,315	\$ 44
Non-owner occupied	32	0	41	0
Commercial	553	0	1,645	0
Residential real estate				
1-4 family residential	2,468	578	2,742	195
Home equity lines of credit	120	159	139	40
Consumer				
Indirect	219	164	90	193
Direct	33	1	36	0
Other	0	5	0	1
Total originated loans	\$6,801	\$ 907	\$8,008	\$ 473
Acquired loans:				
Commercial real estate				
Other	\$115	\$ 0	\$0	\$ 0
Commercial	1,321	0	0	0
Residential real estate				
1-4 family residential	158	29	0	0
Home equity lines of credit	77	7	0	0
Consumer				
Direct	85	0	0	0
Total acquired loans	\$1,756	\$ 36	\$0	\$ 0
Total loans	\$8,557	\$ 943	\$8,008	\$ 473

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

The following table presents the aging of the recorded investment in past due loans as of September 30, 2015 and December 31, 2014 by class of loans:

	30-59	60-89				
	Days	Days	90 Days or More	Total		
	Past	Past	Past Due	Past	Loans Not	
(In Thousands of Dollars)	Due	Due	and Nonaccrual	Due	Past Due	Total
September 30, 2015						
Originated loans:						
Commercial real estate						
Owner occupied	\$0	\$0	\$ 3,376	\$3,376	\$96,128	\$99,504
Non-owner occupied	0	19	32	51	129,960	130,011
Other	0	0	0	0	47,684	47,684
Commercial	80	0	553	633	139,457	140,090
Residential real estate						
1-4 family residential	1,590	657	3,046	5,293	159,872	165,165
Home equity lines of credit	33	45	279	357	36,925	37,282
Consumer						
Indirect	1,575	322	383	2,280	126,389	128,669
Direct	121	0	34	155	14,433	14,588
Other	16	27	5	48	4,253	4,301
Total originated loans:	\$3,415	\$1,070	\$ 7,708	\$12,193	\$755,101	\$767,294
Acquired loans:						
Commercial real estate						
Owner occupied	\$141	\$0	\$ 0	\$141	\$111,479	\$111,620
Non-owner occupied	0	0	0	0	20,429	20,429
Other	0	0	115	115	32,113	32,228
Commercial	415	280	1,321	2,016	62,308	64,324
Residential real estate						
1-4 family residential	923	7	187	1,117	116,117	117,234
Home equity lines of credit	11	31	84	126	40,319	40,445
Consumer						
Direct	444	236	85	765	28,677	29,442
Total acquired loans	\$1,934	\$554	\$ 1,792	\$4,280	\$411,442	\$415,722
Total loans	\$5,349	\$1,624	\$ 9,500	\$16,473	\$1,166,543	\$1,183,016

	30-59	60-89				
	Days	Days	90 Days or More	Total	Loans	
	Past	Past	Past Due	Past	Not	
(In Thousands of Dollars)	Due	Due	and Nonaccrual	Due	Past Due	Total
December 31, 2014						
Commercial real estate						

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Owner occupied	\$0	\$0	\$ 3,359	\$3,359	\$71,272	\$74,631
Non-owner occupied	0	0	41	41	121,872	121,913
Other	0	0	0	0	26,029	26,029
Commercial	0	0	1,645	1,645	118,505	120,150
Residential real estate						
1-4 family residential	1,892	546	2,937	5,375	147,223	152,598
Home equity lines of credit	205	92	179	476	30,779	31,255
Consumer						
Indirect	2,136	406	283	2,825	121,754	124,579
Direct	108	18	36	162	8,909	9,071
Other	17	6	1	24	3,602	3,626
Total loans	\$4,358	\$1,068	\$ 8,481	\$13,907	\$649,945	\$663,852

Troubled Debt Restructurings:

Total troubled debt restructurings were \$8.2 million and \$8.1 million at September 30, 2015 and December 31, 2014, respectively. The Company has allocated \$272 thousand and \$242 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2015 and December 31, 2014. There were no commitments to lend additional amounts to borrowers with loans that were classified as troubled debt restructurings at September 30, 2015 and \$25 thousand at December 31, 2014.

During the three and nine month periods ended September 30, 2015 and 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a deferral of principal payments; or a legal concession.

Troubled debt restructuring modifications involved a reduction of the notes stated interest rate in the range of 0.38% and 2.75%. There were also extensions of the maturity dates on these and other troubled debt restructurings in the range of 9 months to 120 months.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three and nine month periods ended September 30, 2015 and 2014:

Three Months Ended September 30, 2015 (In Thousands of Dollars)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate			
1-4 family residential	5	\$ 153	\$ 153
Indirect	3	25	25
Total loans	8	\$ 178	\$ 178

Nine Months Ended September 30, 2015 (In Thousands of Dollars)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate			
Owner occupied	2	\$ 801	\$ 801
Commercial	1	8	8
Residential real estate			
1-4 family residential	10	700	700
Home equity lines of credit	1	50	50
Indirect	5	61	61
Total loans	19	\$ 1,620	\$ 1,620

Three Months Ended September 30, 2014	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded
---------------------------------------	--	---

(In Thousands of Dollars)	Number of Loans	Investment	Investment
Troubled Debt Restructurings:			
Commercial real estate			
Owner occupied	1	\$ 303	\$ 316
Residential real estate			
1-4 family residential	5	235	235
Home equity lines of credit	1	17	17
Indirect	2	37	37
Consumer	1	11	11
Total	10	\$ 603	\$ 616

21

Nine Months Ended September 30, 2014 (In Thousands of Dollars)	Number of Loans	Pre-Modification	Post-Modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial real estate			
Owner occupied	1	\$ 303	\$ 316
Non-owner occupied	2	408	408
Residential real estate			
1-4 family residential	19	1,017	1,034
Home equity lines of credit	4	105	105
Indirect	2	37	37
Consumer	1	11	11
Total	29	\$ 1,881	\$ 1,911

There were \$23 thousand in charge offs and a \$23 thousand increase to the provision for loan losses during the three month period ended September 30, 2015, as a result of troubled debt restructurings. There were \$110 thousand in charge offs and a \$85 thousand increase to the provision for loan losses during the nine month period ended September 30, 2015, as a result of troubled debt restructurings. There were \$10 thousand in charge offs with no increase to the provision for loan losses during the three month period ended September 30, 2014, as a result of troubled debt restructurings. There were \$42 thousand in charge offs resulting in an \$11 thousand increase to the provision for loan losses during the nine month period ended September 30, 2014.

There was one commercial real estate loan for which there was a payment default within twelve months following the modification of the troubled debt restructuring during the three and nine month periods ended September 30, 2015. This loan was past due at September 30, 2015. There was no provision recorded as a result of this default during 2015. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

There was one residential real estate loan modified as a troubled debt restructuring for which there was a payment default within the twelve months following the modification during the three and nine month period ended September 30, 2014. This loan was past due at September 30, 2014. There was no effect on the provision for loan losses as a result of the default during 2014. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company establishes a risk rating at origination

for all commercial loan and commercial real estate relationships. For relationships over \$750 thousand, management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt. Management also affirms the risk ratings for the loans and leases in their respective portfolios on an annual basis. The Company uses the following definitions for risk ratings:

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

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

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

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

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

As of September 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In Thousands of Dollars)	Pass	Special Mention	Sub standard	Doubtful	Not Rated	Total
September 30, 2015						
Originated loans:						
Commercial real estate						
Owner occupied	\$93,742	\$ 1,086	\$4,676	\$ 0	\$ 0	\$99,504
Non-owner occupied	126,594	469	2,948	0	0	130,011
Other	47,383	0	301	0	0	47,684
Commercial	137,153	875	2,063	0	0	140,091
Total originated loans	\$404,872	\$ 2,430	\$9,988	\$ 0	\$ 0	\$417,290
Acquired loans:						
Commercial real estate						
Owner occupied	\$110,497	\$ 0	\$1,123	\$ 0	\$ 0	\$111,620
Non-owner occupied	18,573	1,346	510	0	0	20,429
Other	31,636	477	115	0	0	32,228
Commercial	60,319	2,684	1,321	0	0	64,324
Total acquired loans	\$221,025	\$ 4,507	\$3,069	\$ 0	\$ 0	\$228,601
Total loans	\$625,897	\$ 6,937	\$13,057	\$ 0	\$ 0	\$645,891

(In Thousands of Dollars)	Pass	Special Mention	Sub standard	Doubtful	Not Rated	Total
December 31, 2014						
Commercial real estate						
Owner occupied	\$66,036	\$ 2,534	\$6,061	\$ 0	\$ 0	\$74,631
Non-owner occupied	115,159	3,760	2,994	0	0	121,913
Other	25,710	0	319	0	0	26,029
Commercial	114,409	1,566	4,175	0	0	120,150
Total loans	\$321,314	\$ 7,860	\$13,549	\$ 0	\$ 0	\$342,723

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential, consumer indirect and direct loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity.

The following table presents the recorded investment in residential, consumer indirect and direct auto loans based on payment activity as of September 30, 2015 and December 31, 2014. Nonperforming loans are loans past due 90 days or more and still accruing interest and nonaccrual loans.

(In Thousands of Dollars)	Residential Real Estate		Consumer		Other
	Indirect	Direct	Indirect	Direct	

1-4 Home
Family Equity
Residential Lines of
Credit

September 30, 2015					
Originated loans:					
Performing	\$ 162,119	\$ 37,003	\$ 128,286	\$ 14,555	\$ 4,296
Nonperforming	3,046	279	383	33	5
Total originated loans	\$ 165,165	\$ 37,282	\$ 128,669	\$ 14,588	\$ 4,301
Acquired loans:					
Performing	\$ 117,047	\$ 40,361	\$ 0	\$ 29,357	\$ 0
Nonperforming	187	84	0	85	0
Total acquired loans	117,234	40,445	0	29,442	0
Total loans	\$ 282,399	\$ 77,727	\$ 128,669	\$ 44,030	\$ 4,301

23

(In Thousands of Dollars)	Residential Real Estate		Consumer		
	1-4 Family	Home Equity Lines of Credit	Indirect	Direct	Other
December 31, 2014					
Performing	\$ 149,661	\$ 31,076	\$ 124,296	\$ 9,035	\$ 3,625
Nonperforming	2,937	179	283	36	1
Total	\$ 152,598	\$ 31,255	\$ 124,579	\$ 9,071	\$ 3,626

Interest-Rate Swaps:

The Company uses a program that utilizes interest-rate swaps as part of its asset/liability management strategy. The interest-rate swaps are used to help manage the Company's interest rate risk position and not as derivatives for trading purposes. The notional amount of the interest-rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest-rate swap agreements.

The objective of the interest-rate swaps is to protect the related fixed rate commercial real estate loans from changes in fair value due to changes in interest rates. The Company has a program whereby it lends to its borrowers at a fixed rate with the loan agreement containing a two-way yield maintenance provision, which will be invoked in the event of prepayment of the loan, and is expected to exactly offset the fair value of unwinding the swap. The yield maintenance provision represents an embedded derivative which is bifurcated from the host loan contract and, as such, the swaps and embedded derivatives are not designated as hedges. Accordingly, both instruments are carried at fair value and changes in fair value are reported in current period earnings.

Summary information about these interest-rate swaps at periods ended September 30, 2015 and December 31, 2014 is as follows:

	September 30, 2015	December 31, 2014
Notional amounts (In thousands)	\$ 34,802	\$ 31,459
Weighted average pay rate on interest-rate swaps	4.23 %	4.26 %
Weighted average receive rate on interest-rate swaps	2.64 %	2.67 %
Weighted average maturity (years)	4.0	5.9
Fair value of combined interest-rate swaps (In thousands)	\$ 1,131	\$ 638

The fair value of the yield maintenance provisions and interest-rate swaps is recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. Changes in the fair value of the yield maintenance provisions and interest-rate swaps are reported in earnings, as other noninterest income in the consolidated statements

of income. For the three and nine month periods ended September 30, 2015 and 2014 there were no net gains or losses recognized in earnings.

Earnings Per Share:

The computation of basic and diluted earnings per share is shown in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic EPS				
Net income (In thousands)	\$ 1,857	\$ 2,276	\$ 4,880	\$ 6,818
Weighted average shares outstanding	25,710,795	18,716,094	21,204,754	18,761,352
Basic earnings per share	\$0.07	\$0.12	\$0.23	\$0.36
Diluted EPS				
Net income (In thousands)	\$ 1,857	\$ 2,276	\$ 4,880	\$ 6,818
Weighted average shares out-standing for basic earnings per share	25,710,795	18,716,094	21,204,754	18,761,352
Dilutive effect of restricted stock awards	6,059	974	4,384	367
Weighted average shares for diluted earnings per share	25,716,854	18,717,068	21,209,138	18,761,719
Diluted earnings per share	\$0.07	\$0.12	\$0.23	\$0.36

There were no restricted stock awards that were considered anti-dilutive for the three and nine month periods ended September 30, 2015 and 2014.

Stock Based Compensation:

During 2012, the Company, with the approval of shareholders, created the 2012 Equity Incentive Plan (the "Plan"). The Plan permits the award of up to 500 thousand shares to the Company's directors and employees to promote the Company's long-term financial success by motivating performance through long-term incentive compensation and to better align the interests of its employees with those of its shareholders. There were 279,023 additional shares awarded under the Plan during the nine month period ended September 30, 2015. Expense recognized for the Plan was \$159 thousand and \$275 thousand for the three and nine month periods ended September 30, 2015. As of September 30, 2015, there was \$2.1 million of total unrecognized compensation expense related to the nonvested shares granted under the Plan. The remaining cost is expected to be recognized over 2.9 years. There were 46,957 shares awarded and \$29 thousand and \$87 thousand of expense recognized for the Plan for the three and nine month periods ended September 30, 2014.

The following is the activity under the Plan during the nine months ended September 30, 2015:

Restricted Stock Units	
Units	Weighted Average
	Grant Date Fair

		Value
Nonvested at January 1, 2015	46,957	\$ 7.39
Granted	279,023	7.96
Vested	0	0
Forfeited	(5,000)	7.88
Nonvested at September 30, 2015	320,980	\$ 7.88

Other Comprehensive Income:

The following table represents the detail of other comprehensive income for the three and nine month periods ended September 30, 2015 and 2014.

(In Thousands of Dollars)	Three Months Ended		
	September 30, 2015		
	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	\$3,557	\$(1,245)	\$ 2,312
Reclassification adjustment for (gains) losses included in net income (1)	(3)	1	(2)
Net unrealized gains on available-for-sale securities	\$3,554	\$(1,244)	\$ 2,310

25

(In Thousands of Dollars)	Nine Months Ended September 30, 2015		
	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	\$421	\$(148)	\$ 273
Reclassification adjustment for (gains) losses included in net income (1)	(48)	17	(31)
Net unrealized gains on available-for-sale securities	\$373	\$(131)	\$ 242

(In Thousands of Dollars)	Three Months Ended September 30, 2014		
	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	\$527	\$(184)	\$ 343
Reclassification adjustment for (gains) losses included in net income (1)	(1)	0	(1)
Net unrealized gains on available-for-sale securities	\$526	\$(184)	\$ 342

(In Thousands of Dollars)	Nine Months Ended September 30, 2014		
	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	\$7,547	\$(2,642)	\$ 4,905
Reclassification adjustment for (gains) losses included in net income (1)	(85)	30	(55)
Net unrealized gains on available-for-sale securities	\$7,462	\$(2,612)	\$ 4,850

(1) Pre-tax reclassification adjustments relating to available-for-sale securities are reported in security gains and the tax impact is included in income tax expense on the consolidated statements of income.

Regulatory Capital Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action 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 initiate regulatory action by regulators that, if undertaken, could have a direct material effect on the financial statements. Management believes as of September 30, 2015, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At September 30, 2015 and December 31, 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Actual and required capital amounts and ratios are presented below at September 30, 2015 and December 31, 2014:

	Actual		Requirement		To be Well	
	Amount	Ratio	For	Ratio	Capitalized	
			Capital		Under Prompt	
			Adequacy		Corrective	
			Purposes:		Action	
			Amount	Ratio	Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2015						
Common equity tier 1 capital ratio						
Consolidated	\$160,627	12.24%	\$59,058	4.50%	N/A	N/A
Bank	145,893	11.15%	58,890	4.50%	\$85,063	6.50%
Total risk based capital ratio						
Consolidated	168,968	12.87%	104,991	8.00%	N/A	N/A
Bank	154,187	11.78%	104,693	8.00%	130,866	10.00%
Tier 1 risk based capital ratio						
Consolidated	160,627	12.24%	78,744	6.00%	N/A	N/A
Bank	145,893	11.15%	78,520	6.00%	104,693	8.00%
Tier 1 leverage ratio						
Consolidated	160,627	9.59%	67,018	4.00%	N/A	N/A
Bank	145,893	8.77%	66,568	4.00%	83,210	5.00%
December 31, 2014						
Total Capital to risk weighted assets						
Consolidated	\$121,340	16.48%	\$58,523	8.00%	N/A	N/A
Bank	114,321	15.56%	58,773	8.00%	\$73,466	10.00%
Tier 1 Capital to risk weighted assets						
Consolidated	113,654	15.43%	29,262	4.00%	N/A	N/A
Bank	106,689	14.52%	29,386	4.00%	44,079	6.00%
Tier 1 Capital to average assets						
Consolidated	113,654	10.03%	45,313	4.00%	N/A	N/A
Bank	106,689	9.37%	45,565	4.00%	56,956	5.00%

Fair Value:

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

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 reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

27

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The Company uses a third party service to estimate fair value on available for sale securities on a monthly basis. This service provider is considered a leading evaluation pricing service for U.S. domestic fixed income securities. They subscribe to multiple third-party pricing vendors, and supplement that information with matrix pricing methods. The fair values for investment securities are determined by quoted market prices in active markets, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on quoted prices for similar assets in active markets, quoted prices for similar assets in markets that are not active or inputs other than quoted prices, which provide a reasonable basis for fair value determination. Such inputs may include interest rates and yield curves, volatilities, prepayment speeds, credit risks and default rates. Inputs used are derived principally from observable market data (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). The fair values of Level 3 investment securities are determined by using unobservable inputs to measure fair value of assets for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based on the best information at the time, to the extent that inputs are available without undue cost and effort. For the period ended September 30, 2015 and for the year ended December 31, 2014, the fair value of Level 3 investment securities was immaterial.

Derivative Instruments: The fair values of derivative instruments are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: At the time loans are considered impaired, collateral dependent impaired loans are valued at the lower of cost or fair value and non-collateral dependent loans are valued based on discounted cash flows. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans fair value is commonly based on recent real estate appraisals. 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. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair values are commonly based on recent real estate appraisals. These appraisals may use 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 independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial and commercial real estate properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Appraisal Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what adjustments should be made to appraisals to arrive at fair value.

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Assets measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at September 30, 2015				
Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In Thousands of Dollars)	Carrying Value			
Financial Assets				
Investment securities available-for sale				
U.S. Treasury and U.S. government				
sponsored entities	\$ 19,149	\$ 0	\$ 19,149	\$ 0
State and political subdivisions	124,656	0	124,656	0
Corporate bonds	1,034	0	1,034	0
Mortgage-backed securities-residential	199,000	0	198,985	15
Collateralized mortgage obligations	14,792	0	14,792	0
Small Business Administration	20,201	0	20,201	0
Equity securities	306	306	0	0
Total investment securities	\$ 379,138	\$ 306	\$ 378,817	\$ 15
Yield maintenance provisions	\$ 1,131	\$ 0	\$ 1,131	\$ 0
Financial Liabilities				
Interest rate swaps	\$ 1,131	\$ 0	\$ 1,131	\$ 0

Fair Value Measurements at December 31, 2014				
Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In Thousands of Dollars)	Carrying Value			
Financial Assets				
Investment securities available-for sale				
U.S. Treasury and U.S. government				
sponsored entities	\$ 24,821	\$ 0	\$ 24,821	\$ 0
State and political subdivisions	91,881	0	91,881	0
Corporate bonds	931	0	931	0
Mortgage-backed securities-residential	224,362	0	224,352	10
Collateralized mortgage obligations	25,175	0	25,175	0
Small Business Administration	22,419	0	22,419	0

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Equity securities	240	240	0	0
Total investment securities	\$389,829	\$ 240	\$ 389,579	\$ 10
Yield maintenance provisions	\$638	\$ 0	\$ 638	\$ 0
Financial Liabilities				
Interest rate swaps	\$638	\$ 0	\$ 638	\$ 0

There were no significant transfers between Level 1 and Level 2 during the three and nine month periods ended September 30, 2015 and 2014.

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(In Thousands of Dollars)	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Beginning Balance	\$ 16	\$ 10	\$ 10	\$ 10
Total unrealized gains or losses:				
Included in other comprehensive income	0	0	0	0
Repayments	(1)	0	(1)	0
Acquired and/or purchased	0	0	6	0
Ending Balance	\$ 15	\$ 10	\$ 15	\$ 10

Assets measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at September 30, 2015
Using:

(In Thousands of Dollars)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Value	Value	Value
Financial Assets				
Impaired loans				
Commercial real estate				
Owner occupied	\$ 1,225	\$ 0	\$ 0	\$ 1,225
Commercial	110	0	0	110
1-4 family residential	42	0	0	42

Fair Value Measurements at December 31, 2014 Using:

(In Thousands of Dollars)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Value	Value	Value

Financial Assets				
Impaired loans				
Commercial	\$807	\$ 0	\$ 0	\$ 807
1-4 family residential	63	0	0	63
Other real estate owned				
Commercial real estate	45	0	0	45

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$2.1 million with a valuation allowance of \$689 thousand at September 30, 2015, resulting in an additional provision for loan losses of \$567 thousand and \$777 thousand for the three and nine month periods, respectively. At December 31, 2014, impaired loans had a principal balance of \$988 thousand, with a valuation allowance of \$117 thousand. Loans measured at fair value at September 30, 2014 resulted in an additional provision for loan losses of \$338 thousand and \$554 thousand during the three and nine month periods ended September 30, 2014. Excluded from the fair value of impaired loans, at September 30, 2015 and December 31, 2014, discussed above are \$3.0 million and \$4.2 million of loans classified as troubled debt restructurings and measured using the present value of cash flows, which are not carried at fair value.

Impaired commercial real estate loans, both owner-occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Management makes subsequent unobservable adjustments to the impaired loan appraisals. Impaired loans other than commercial real estate and other real estate owned are not considered material.

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

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 the periods ended September 30, 2015 and December 31, 2014:

				Range
September 30, 2015	Fair value	Valuation Technique(s)	Unobservable Input(s)	(Weighted Average)
Impaired loans				
Commercial real estate	\$ 317	Sales comparison	Adjustment for differences between earning multiplier	-17.04% - 26.67%
Commercial real estate	908	Income approach	Adjustment for differences between earning multiplier	(-2.96%) -49.42% - 40.89%
Commercial	110	Sales comparison	Adjustment for differences between comparable sales	(35.33%) -2.11% - 2.11%
Residential	42	Sales comparison	Adjustment for differences between comparable sales	(0%) -13.49% - 15.90%
				(-10.65%)

				Range
December 31, 2014	Fair value	Valuation Technique(s)	Unobservable Input(s)	(Weighted Average)
Impaired loans				
Commercial	\$ 807	Sales comparison	Adjustment for differences between comparable sales	-27.43% - 32.86%
Residential	63	Sales comparison	Adjustment for differences between comparable sales	(9.96%) -18.32% - 24.16%
Other real estate owned	45	Sales comparison	Adjustment for differences between comparable sales	(-14.02%) -12.86% - 11.97%
				(-5.79%)

The carrying amounts and estimated fair values of financial instruments not previously disclosed at September 30, 2015 and December 31, 2014 are as follows:

Fair Value Measurements at September 30, 2015					
Using:					
(In Thousands of Dollars)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$ 34,344	\$ 16,430	\$ 17,914	\$ 0	\$ 34,344

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Restricted stock	7,456	n/a	n/a	n/a	n/a
Loans held for sale	566	0	581	0	581
Loans, net	1,174,722	0	0	1,166,909	1,166,909
Accrued interest receivable	5,285	0	2,215	3,070	5,285
Financial liabilities					
Deposits	1,330,249	1,080,591	248,827	0	1,329,418
Short-term borrowings	163,429	0	163,429	0	163,429
Long-term borrowings	16,272	0	17,693	0	17,693
Accrued interest payable	514	26	488	0	514

31

Fair Value Measurements at December 31,
2014 Using:

(In Thousands of Dollars)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$27,428	\$11,410	\$16,018	\$0	\$27,428
Restricted stock	4,224	n/a	n/a	n/a	n/a
Loans held for sale	511	0	523	0	523
Loans, net	656,220	0	0	658,993	658,993
Accrued interest receivable	3,237	0	1,645	1,592	3,237
Financial liabilities					
Deposits	915,703	708,752	206,708	0	915,460
Short-term borrowings	59,136	0	59,136	0	59,136
Long-term borrowings	28,381	0	28,837	0	28,837
Accrued interest payable	402	2	400	0	402

The methods and assumptions used to estimate fair value, not previously described, are described as follows:

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2. The Company has determined that cash on hand and non-interest bearing due from bank accounts are Level 1 whereas interest bearing federal funds sold and other are Level 2.

Restricted Stock: It is not practical to determine the fair value of restricted stock due to restrictions placed on its transferability.

Loans: Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that repriced frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Accrued Interest Receivable/Payable: The carrying amounts of accrued interest receivable and payable approximate fair value resulting in a Level 1, Level 2 or Level 3 classification. The classification is the result of the association with securities, loans and deposits.

Deposits: The fair values disclosed for demand deposits – interest and non-interest checking, passbook savings, and money market accounts – are, by definition, equal to the amount payable on demand at the reporting date resulting in a Level 1 classification. The carrying amounts of variable rate certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair value for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Short-term Borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a

Level 2 classification.

Long-term Borrowings: The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Off-balance Sheet Instruments: The fair value of commitments is not considered material.

Segment Information:

The reportable segments are determined by the products and services offered, primarily distinguished between banking, trust and retirement consulting operations. They are also distinguished by the level of information provided to the chief operating decision makers in the Company, who use such information to review performance of various components of the business, which are then aggregated. Loans, investments, and deposits provide the revenues in the banking operation. All operations are domestic.

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Significant segment totals are reconciled to the financial statements as follows:

(In Thousands of Dollars)	Retirement				Consolidated
	Trust	Bank	Consulting	Eliminations	
	Segment	Segment	Segment	and Others	Totals
September 30, 2015					
Goodwill and other intangibles	\$ 5,047	\$ 30,952	\$ 3,266	\$ 0	\$ 39,265
Total assets	\$ 10,696	\$ 1,691,424	\$ 4,143	\$ 1,534	\$ 1,707,797

(In Thousands of Dollars)	Retirement				Consolidated
	Trust	Bank	Consulting	Eliminations	
	Segment	Segment	Segment	and Others	Totals
December 31, 2014					
Goodwill and other intangibles	\$ 5,285	\$ 0	\$ 3,528	\$ 0	\$ 8,813
Total assets	\$ 10,643	\$ 1,121,505	\$ 4,356	\$ 463	\$ 1,136,967

(In Thousands of Dollars)	Retirement				Consolidated
	Trust	Bank	Consulting	Eliminations	
	Segment	Segment	Segment	and Others	Totals
For Three Months Ended September 30, 2015					
Net interest income	\$ 16	\$ 14,525	\$ 0	\$ (3)	\$ 14,538
Provision for loan losses	0	1,220	0	0	1,220
Service fees, security gains and other noninterest income	1,505	2,824	423	(67)	4,685
Noninterest expense	1,161	11,909	381	1,264	14,715
Amortization and depreciation expense	84	632	90	0	806
Income (loss) before taxes	276	3,588	(48)	(1,334)	2,482
Income taxes	95	783	(16)	(237)	625
Net Income (Loss)	\$ 181	\$ 2,805	\$ (32)	\$ (1,097)	\$ 1,857

(In Thousands of Dollars)	Retirement				Consolidated
	Trust	Bank	Consulting	Eliminations	
	Segment	Segment	Segment	and Others	Totals
For Nine Months Ended September 30, 2015					
Net interest income	\$ 46	\$ 33,243	\$ 0	\$ (10)	\$ 33,279
Provision for loan losses	0	2,520	0	0	2,520
Service fees, security gains and other noninterest income	4,708	6,917	1,705	(199)	13,131
Noninterest expense	3,598	26,924	1,143	3,841	35,506
Amortization and depreciation expense	255	1,328	270	0	1,853

Edgar Filing: FARMERS NATIONAL BANC CORP /OH/ - Form 10-Q

Income before taxes	901	9,388	292	(4,050)	6,531
Income taxes	307	2,005	100	(761)	1,651
Net Income	\$594	\$7,383	\$ 192	\$ (3,289)	\$ 4,880

	Retirement				
	Trust	Bank	Consulting	Eliminations	Consolidated
(In Thousands of Dollars)	Segment	Segment	Segment	and Others	Totals
For Three Months Ended September 30, 2014					
Net interest income	\$ 13	\$9,276	\$ 0	\$ (4)	\$ 9,285
Provision for loan losses	0	425	0	0	425
Service fees, security gains and other					
noninterest income	1,575	1,971	395	(61)	3,880
Noninterest expense	1,234	7,794	421	327	9,776
Income before taxes	354	3,028	(26)	(392)	2,964
Income taxes	121	708	(9)	(132)	688
Net Income	\$233	\$2,320	\$ (17)	\$ (260)	\$ 2,276

33

	Retirement				Consolidated
	Trust	Bank	Consulting	Eliminations	
(In Thousands of Dollars)	Segment	Segment	Segment	and Others	Totals
For Nine Months Ended September 30, 2014					
Net interest income	\$ 39	\$ 27,065	\$ 0	\$ (11)	\$ 27,093
Provision for loan losses	0	1,055	0	0	1,055
Service fees, security gains and other					
noninterest income	4,666	5,265	1,392	(213)	11,110
Noninterest expense	3,614	22,528	1,245	908	28,295
Income before taxes	1,091	8,747	147	(1,132)	8,853
Income taxes	374	1,987	50	(376)	2,035
Net Income	\$ 717	\$ 6,760	\$ 97		