

FARMERS NATIONAL BANC CORP /OH/

Form 10-Q

May 09, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the Quarterly period ended March 31, 2011
Commission file number 0-12055
FARMERS NATIONAL BANC CORP.
(Exact name of registrant as specified in its charter)

OHIO

34-1371693

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No)

20 South Broad Street
Canfield, OH

44406

(Address of principal executive offices)

(Zip Code)

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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 April 30, 2011

Common Stock, No Par Value

18,673,921 shares

PART I FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

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CONSOLIDATED BALANCE SHEETS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES
(Unaudited)

	(In Thousands of Dollars)	
	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 44,098	\$ 30,772
Federal funds sold	37,841	6,533
TOTAL CASH AND CASH EQUIVALENTS	81,939	37,305
Securities available for sale	315,039	314,347
Loans	576,450	590,367
Less allowance for loan losses	10,137	9,307
NET LOANS	566,313	581,060
Premises and equipment, net	13,767	13,944
Bank owned life insurance	11,580	11,529
Goodwill	3,709	3,709
Other intangibles	3,068	3,211
Other assets	19,146	17,646
TOTAL ASSETS	\$ 1,014,561	\$ 982,751
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	\$ 81,607	\$ 77,728
Interest-bearing	683,670	683,322
TOTAL DEPOSITS	765,277	761,050
Short-term borrowings	119,497	105,634
Long-term borrowings	23,784	24,733
Other liabilities	2,881	3,286
TOTAL LIABILITIES	911,439	894,703
Commitments and contingent liabilities		
Stockholders Equity:		

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Common Stock	Authorized 25,000,000 shares; issued 18,673,934 in 2011 and 15,699,184 in 2010	103,885	96,142
Retained (deficit) earnings		(3,713)	14,502
Accumulated other comprehensive income		2,950	2,907
Treasury stock, at cost; 13 shares in 2011 and 2,053,149 in 2010		0	(25,503)
TOTAL STOCKHOLDERS EQUITY		103,122	88,048
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		\$ 1,014,561	\$ 982,751

See accompanying notes

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES
(Unaudited)

	(In Thousands except Per Share Data)	
	For the Three Months Ended	
	March 31,	March 31,
	2011	2010
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 8,466	\$ 9,232
Taxable securities	1,869	2,241
Tax exempt securities	739	591
Dividends	46	53
Federal funds sold	9	9
TOTAL INTEREST AND DIVIDEND INCOME	11,129	12,126
INTEREST EXPENSE		
Deposits	1,698	2,745
Short-term borrowings	97	285
Long-term borrowings	251	282
TOTAL INTEREST EXPENSE	2,046	3,312
NET INTEREST INCOME	9,083	8,814
Provision for loan losses	1,875	2,778
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,208	6,036
NONINTEREST INCOME		
Service charges on deposit accounts	473	478
Bank owned life insurance income, including death benefits	159	126
Trust fees	1,338	1,232
Insurance agency commissions	64	62
Investment commissions	191	111
Other operating income	392	327
TOTAL NONINTEREST INCOME	2,617	2,336
NONINTEREST EXPENSES		
Salaries and employee benefits	4,188	3,977
Occupancy and equipment	916	925
State and local taxes	247	232
Professional fees	236	309

Advertising	145	130
FDIC insurance	348	303
Intangible amortization	143	145
Core processing charges	245	239
Other operating expenses	1,346	1,272
TOTAL NONINTEREST EXPENSES	7,814	7,532
INCOME BEFORE INCOME TAXES	2,011	840
INCOME TAXES	321	(7)
NET INCOME	\$ 1,690	\$ 847
OTHER COMPREHENSIVE INCOME NET OF TAX:		
Change in net unrealized gains on securities, net of reclassifications	43	1,067
COMPREHENSIVE INCOME	\$ 1,733	\$ 1,914
NET INCOME PER SHARE basic and diluted	\$ 0.10	\$ 0.06
DIVIDENDS PER SHARE	\$ 0.03	\$ 0.03
	See accompanying notes	

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CONSOLIDATED STATEMENTS OF CASH FLOWS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES
(Unaudited)

	(In Thousands of Dollars)	
	Three Months Ended	
	March 31,	March 31,
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,690	\$ 847
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,875	2,778
Depreciation and amortization	428	428
Net amortization of securities	1,499	250
Loss on sale of other real estate owned	16	49
Increase in bank owned life insurance	(159)	(126)
Net change in other assets and liabilities	(1,628)	(1,525)
NET CASH FROM OPERATING ACTIVITIES	3,721	2,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	10,876	13,145
Purchases of securities available for sale	(13,002)	(18,803)
Loan originations and payments, net	12,473	(1,773)
Proceeds from sale of other real estate owned	59	323
Proceeds from BOLI death benefit	108	0
Additions to premises and equipment	(83)	(461)
NET CASH FROM INVESTING ACTIVITIES	10,431	(7,569)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	4,227	(757)
Net change in short-term borrowings	13,863	26,293
Repayment of Federal Home Loan Bank borrowings and other debt	(949)	(1,649)
Cash dividends paid	(559)	(405)
Proceeds from dividend reinvestment	128	120
Proceeds from common stock offering, net of offering expenses	13,772	0
NET CASH FROM FINANCING ACTIVITIES	30,482	23,602
NET CHANGE IN CASH AND CASH EQUIVALENTS	44,634	18,734
Beginning cash and cash equivalents	37,305	51,160
Ending cash and cash equivalents	\$ 81,939	\$ 69,894
Supplemental cash flow information:		
Interest paid	\$ 2,068	\$ 3,481

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Income taxes paid		\$	0	\$	0
Supplemental noncash disclosures:					
Transfer of loans to other real estate		\$	399	\$	75
	See accompanying notes				

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (the Company) is a multi-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 (the Bank). The Company provides trust services through its subsidiary, Farmers Trust Company (the Trust), and insurance services through the Bank's subsidiary, Farmers National Insurance. The consolidated financial statements include the accounts of the Company, the Bank, the Trust and Farmers National Insurance. 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 2010 Annual Report to Shareholders included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. 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.

Estimates:

To prepare financial statements in conformity with U.S. GAAP, 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 future results could differ. The allowance for loan losses, deferred tax assets, carrying amount of goodwill and fair values of financial instruments are particularly subject to change.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. While the Company's chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is primarily aggregated and reported in two lines of business, the Bank segment and the Trust segment.

Table of Contents**Securities:**

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at March 31, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
U.S. Treasury and U.S. government sponsored entities	\$ 71,717	\$ 2,474	\$ (202)	\$ 73,989
State and political subdivisions	80,100	1,418	(1,655)	79,863
Mortgage-backed securities residential	139,322	3,662	(1,193)	141,791
Collateralized mortgage obligations	18,963	0	(266)	18,697
Equity securities	149	299	(16)	432
Other securities	250	17	0	267
Totals	\$ 310,501	\$ 7,870	\$ (3,332)	\$ 315,039

(In Thousands of Dollars)

December 31, 2010

U.S. Treasury and U.S. government sponsored entities	\$ 67,376	\$ 2,768	\$ (166)	\$ 69,978
State and political subdivisions	81,397	1,215	(2,146)	80,466
Mortgage-backed securities residential	140,681	4,099	(1,003)	143,777
Collateralized mortgage obligations	20,021	1	(362)	19,660
Equity securities	149	66	(16)	199
Other securities	250	17	0	267
Totals	\$ 309,874	\$ 8,166	\$ (3,693)	\$ 314,347

There were no sales of securities during the three months ended March 31, 2011 and 2010.

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. Mortgage backed securities are not due at a single maturity date and are shown separately.

(In Thousands of Dollars)	March 31, 2011	
Maturity	Amortized Cost	Fair Value
Within one year	\$ 2,068	\$ 2,081
One to five years	78,784	81,010
Five to ten years	46,167	45,672
Beyond ten years	25,048	25,356
Mortgage-backed and CMO securities	158,285	160,488

Total	\$ 310,352	\$ 314,607
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(In Thousands of Dollars)	December 31, 2010	
	Amortized Cost	Fair Value
Maturity		
Within one year	\$ 2,588	\$ 2,593
One to five years	73,969	76,346
Five to ten years	46,151	45,317
Beyond ten years	26,315	26,455
Mortgage-backed and CMO securities	160,702	163,437
Total	\$ 309,725	\$ 314,148

The following table summarizes the investment securities with unrealized losses at March 31, 2011 and December 31, 2010, 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 Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2011						
Available-for-sale						
U.S. Treasury and U.S. government-sponsored entities	\$ 12,627	\$ (196)	\$ 301	\$ (6)	\$ 12,928	\$ (202)
State and political subdivisions	29,603	(1,497)	801	(158)	30,404	(1,655)
Mortgage-backed securities residential	46,630	(1,192)	26	(1)	46,656	(1,193)
Collateralized mortgage obligations	18,672	(266)	0	0	18,672	(266)
Equity securities	0	0	8	(16)	8	(16)
Total	\$ 107,532	\$ (3,151)	\$ 1,136	\$ (181)	\$ 108,668	\$ (3,332)

(In Thousands of Dollars)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
Available-for-sale						
U.S. Treasury and U.S. government-sponsored entities	\$ 8,458	\$ (160)	\$ 313	\$ (6)	\$ 8,771	\$ (166)
State and political subdivisions	36,118	(1,981)	790	(165)	36,908	(2,146)
Mortgage-backed securities residential	45,567	(1,002)	26	(1)	45,593	(1,003)
Collateralized mortgage obligations	19,594	(362)	0	0	19,594	(362)
Equity securities	0	0	8	(16)	8	(16)

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