FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly period ended June 30, 2017

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

(330) 533-3341

(Registrant’s telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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

Class	Outstanding at July 31, 2017
Common Stock, No Par Value	27,078,261 shares

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CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	June 30,	December 31,
(Unaudited)	2017	2016
ASSETS		
Cash and due from banks	$ 20,717	$ 19,678
Federal funds sold and other	43,923	22,100
TOTAL CASH AND CASH EQUIVALENTS	64,640	41,778
Securities available for sale	391,628	369,995
Loans held for sale	583	355
Loans	1,505,273	1,427,635
Less allowance for loan losses	11,746	10,852
NET LOANS	1,493,527	1,416,783
Premises and equipment, net	23,046	23,225
Goodwill	37,164	37,164
Other intangibles	7,261	7,990
Bank owned life insurance	30,440	30,048
Other assets	37,375	38,775
TOTAL ASSETS	$ 2,085,664	$ 1,966,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 387,596	$ 366,870
Interest-bearing	1,153,407	1,157,886
TOTAL DEPOSITS	1,541,003	1,524,756
Short-term borrowings	289,184	198,460
Long-term borrowings	9,643	15,036
Other liabilities	19,147	14,645
TOTAL LIABILITIES	1,858,977	1,752,897
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 35,000,000 shares; issued 27,713,811 in 2017 and 2016	178,761	178,317
Retained earnings	51,329	42,547
Accumulated other comprehensive income (loss)	1,316	(2,791)
Treasury stock, at cost; 647,219 shares in 2017 and 666,147 in 2016	(4,719)	(4,857)
TOTAL STOCKHOLDERS' EQUITY	226,687	213,216
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,085,664	$ 1,966,113

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 Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
(Unaudited)	2017	2016	2017	2016
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$17,402	$15,623	$33,885	$30,893
Taxable securities	1,265	1,288	2,383	2,725
Tax exempt securities	1,170	899	2,241	1,788
Dividends	123	113	238	226
Federal funds sold and other interest income	82	27	145	65
TOTAL INTEREST AND DIVIDEND INCOME	20,042	17,950	38,892	35,697
INTEREST EXPENSE				
Deposits	1,117	793	2,031	1,500
Short-term borrowings	501	144	828	319
Long-term borrowings	51	124	129	242
TOTAL INTEREST EXPENSE	1,669	1,061	2,988	2,061
NET INTEREST INCOME	18,373	16,889	35,904	33,636
Provision for loan losses	950	990	2,000	1,770
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,423	15,899	33,904	31,866
NONINTEREST INCOME				
Service charges on deposit accounts	989	987	1,940	1,922
Bank owned life insurance income	191	202	392	414
Trust fees	1,523	1,564	3,201	3,060
Insurance agency commissions	672	293	1,346	432
Security gains (losses)	(14)	41	(1)	41
Retirement plan consulting fees	399	496	912	985
Investment commissions	253	356	475	592
Net gains on sale of loans	891	540	1,498	942
Debit card and EFT fees	836	657	1,489	1,283
Other operating income	315	601	690	1,012
TOTAL NONINTEREST INCOME	6,055	5,737	11,942	10,683
NONINTEREST EXPENSES				
Salaries and employee benefits	8,853	7,740	17,140	15,294
Occupancy and equipment	1,631	1,616	3,218	3,280
State and local taxes	424	394	841	787
Professional fees	775	754	1,522	1,283
Merger related costs	104	224	166	513
Advertising	317	363	561	708
FDIC insurance	234	286	469	569
Intangible amortization	364	335	729	672
Core processing charges	717	580	1,372	1,218

Telephone and data	242	233	483	449
Other operating expenses	2,103	2,258	3,876	4,454
TOTAL NONINTEREST EXPENSES	15,764	14,783	30,377	29,227
INCOME BEFORE INCOME TAXES	7,714	6,853	15,469	13,322
INCOME TAXES	2,004	1,833	3,976	3,504
NET INCOME	$5,710	$5,020	$11,493	$9,818
EARNINGS PER SHARE - basic and diluted	$0.21	$0.19	$0.42	$0.36

See accompanying notes

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)			
	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
(Unaudited)	2017	2016	2017	2016
NET INCOME	$5,710	$5,020	$11,493	$9,818
Other comprehensive income:				
Net unrealized holding gains on available for sale securities	5,946	5,020	6,321	8,377
Reclassification adjustment for (gains) losses realized in income	14	(41)	1	(41)
Net unrealized holding gains	5,960	4,979	6,322	8,336
Income tax effect	(2,087)	(1,745)	(2,215)	(2,920)
Other comprehensive income, net of tax	3,873	3,234	4,107	5,416
TOTAL COMPREHENSIVE INCOME	$9,583	$8,254	$15,600	$15,234

See accompanying notes

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CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars) For the Six Months Ended June 30, 2017
COMMON STOCK	
Beginning balance	$ 178,317
Issued 18,928 shares under the Long Term Incentive Plan	(133)
Stock compensation expense for 603,203 unvested shares	577
Ending balance	178,761
RETAINED EARNINGS	
Beginning balance	42,547
Net income	11,493
Decrease as a result of shares issued under the Long Term Incentive Plan	(5)
Dividends declared at $.05 per share	(2,706)
Ending balance	51,329
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	
Beginning balance	(2,791)
Other comprehensive income	4,107
Ending balance	1,316
TREASURY STOCK, AT COST	
Beginning balance	(4,857)
Shares issued under the Long Term Incentive Plan	138
Ending balance	(4,719)
TOTAL STOCKHOLDERS' EQUITY	$ 226,687

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars) Six Months Ended	
	June 30,	June 30,
(Unaudited)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$11,493	$9,818
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	2,000	1,770
Depreciation and amortization	1,767	1,787
Net amortization of securities	1,706	1,100
Security (gains) losses	1	(41)
(Gain) loss on land and building sales, net	18	(262)
Stock compensation expense	577	401
(Gain) loss on sale of other real estate owned	(24)	221
Earnings on bank owned life insurance	(392)	(414)
Origination of loans held for sale	(32,119)	(29,698)
Proceeds from loans held for sale	33,389	30,672
Net gains on sale of loans	(1,498)	(942)
Net change in other assets and liabilities	(2,950)	(6,807)
NET CASH FROM OPERATING ACTIVITIES	13,968	7,605
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	22,659	29,331
Proceeds from sales of securities available for sale	54,482	9,191
Purchases of securities available for sale	(87,203)	(12,252)
Purchase of restricted stock	(892)	0
Loan originations and payments, net	(78,828)	(62,905)
Proceeds from sale of other real estate owned	354	407
Proceeds from land and building sales	0	352
Additions to premises and equipment	(664)	(464)
Net cash (paid) received in business combinations	0	(1,073)
NET CASH FROM INVESTING ACTIVITIES	(90,092)	(37,413)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	16,247	38,395
Net change in short-term borrowings	90,724	2,344
Repayment of long-term borrowings	(5,417)	(2,432)
Cash dividends paid	(2,706)	(2,161)
Proceeds from reissuance of treasury shares	138	0
Repurchase of common shares	0	(168)
NET CASH FROM FINANCING ACTIVITIES	98,986	35,978
NET CHANGE IN CASH AND CASH EQUIVALENTS	22,862	6,170
Beginning cash and cash equivalents	41,778	56,014

Ending cash and cash equivalents	$64,640	$62,184
Supplemental cash flow information:		
Interest paid	$2,988	$2,001
Income taxes paid	$2,500	$4,300
Supplemental noncash disclosures:		
Transfer of loans to other real estate	$84	$258
Security purchases not settled	$6,957	$3,105
Issuance of stock awards	$133	$0
Issuance of stock for business combinations	$0	$1,138

See accompanying notes

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (“Company”) is a Financial Holding Company registered under the Bank Holding Company Act of 1956, as amended. The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield (“Bank”). The Bank acquired Bowers Insurance Agency, Inc. (“Bowers”) and consolidated the activity of the Bowers with Farmers National Insurance (“Insurance”) during 2016. The Company acquired First National Bank of Orrville (“First National Bank”) a subsidiary of National Bancshares Corporation (“NBOH”) and 1st National Community Bank (“FNCB”), a subsidiary of Tri-State 1st Banc, Inc. (“Tri-State”) during 2015 and consolidated all activity of both acquisitions within the Bank. Farmers National Captive, Inc. (“Captive”) was formed during the third quarter of 2016 and is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and its subsidiaries. The Captive pools resources with thirteen other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves and to provide insurance where not currently available or economically feasible in today’s insurance market place. The consolidated financial statements also include the accounts of the Bank’s subsidiaries; Insurance and Farmers of Canfield Investment Co. (“Investments”). The Company provides trust services through its subsidiary, Farmers Trust Company (“Trust”), retirement consulting services through National Associates, Inc. (“NAI”) and insurance services through the Bank’s subsidiary, Insurance. The consolidated financial statements include the accounts of the Company, the Bank and its subsidiaries, along with the Trust, NAI and Captive. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2016 Annual Report to Shareholders included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year. Certain items included in the prior period financial statements were reclassified to conform to the current period presentation. There was no effect on net income or total stockholders’ equity.

Estimates:

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

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. 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 stockholders equity, net of tax effects. For all periods presented there was no change in the funded status of the post-retirement health plan.

New Accounting Standards:

During April of 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. Under current U.S. GAAP, a premium is typically amortized to the maturity date when a callable debt security is purchased at a premium, even if the holder is certain the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. The new standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. The standard takes effect for public business entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company amortizes the premium to the expected call date currently and therefore does not expect the adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 from the goodwill impairment test. Instead, under the new guidance, an entity is to perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have an impact on the Company's Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13: Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for public companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company has begun to accumulate historical credit information and created a task force in preparation for the adoption of ASU 2016-13, but management has not determined the impact the new standard will have on the Consolidated Financial Statements.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09: Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 simplify several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 was effective for public companies for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted the ASU 2016-09 on January 1, 2017 which had no material impact on the Consolidated Financial Statements and disclosures.

In February 2016, FASB issued ASU 2016-02 (Topic 842): Leases. The main objective of ASU 2016-02 is to provide users with useful, transparent, and complete information about leasing transactions. ASU 2016-02 requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet in order to increase transparency and comparability among organizations. Under the updated guidance, lessees will be required to recognize a right-to-use asset and a liability to make a lease payment and disclose key information about leasing arrangements. ASU 2016-02 is effective for public companies for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company expects the adoption of this ASU could require capitalization of certain leases in the amount of $2.6 million on the balance sheet as an asset and a related liability of equal amount with no material income statement effect. Therefore the Company does not expect the adoption of this ASU to have a material impact to its Consolidated Financial Statements.

In January 2016, FASB issued ASU 2016-01: Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective of ASU 2016-01 is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management anticipates the impact of the adoption of this guidance on the Company’s consolidated financial statements to be limited.

In May 2014, FASB issued ASU 2014-09: Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. Management anticipates the impact of the adoption of this guidance on the Company's consolidated financial statements to be limited. There will be no impact to core revenue which is mainly interest income less interest expense. Management is still assessing the impact from other non-interest income sources, specifically, deposit fees, trust income and retirement consulting income.

Business Combinations:

On March 13, 2017, the Company announced the agreement and plan of merger with Monitor Bancorp, Inc. ("Monitor"), the holding company for Monitor Bank. Pursuant to the agreement, the actual consideration to be paid will be calculated based on Monitor's consolidated tangible book value per share as of March 31, 2017, plus the after-tax proceeds of the anticipated sale of Monitor's interest in the Monitor Wealth Group (in aggregate, "March 31 TBV"). Each shareholder of Monitor will be entitled to elect to receive consideration in cash or in Farmers' common shares, subject to an overall limitation of 85% of the shares being exchanged for Farmers' shares and 15% for cash. Based on a current estimate of March 31 TBV, the transaction would be valued at approximately $7.8 million with $1.4 million of goodwill recorded. The merger is expected to qualify as a tax-free reorganization for those Monitor shareholders electing to receive Farmers' shares. The transaction has received customary regulatory approval and is now subject to Monitor shareholder approval. The Company expects the transaction to close in the third quarter of 2017.

On June 1, 2016, the Bank completed the acquisition of the Bowers Insurance Agency, Inc., and merged all activity of Bowers with Insurance, the Bank's wholly-owned insurance agency subsidiary. The Bowers group is engage in selling insurance including commercial, farm, home, and auto property/casualty insurance and will help to meet the needs of all the Company's customers. The transaction involved both cash and 123,280 shares of stock totaling $3.2 million, including up to $1.2 million of future payments, contingent upon Bowers meeting performance targets, with an estimated fair value at the acquisition date of $880 thousand. The first of three contingent payments of cash and stock were made, during July 2017, totaling $316 thousand, which reduce the earnout payable to $564 thousand. The acquisition is part of the Company's plan to increase the levels of noninterest income and to complement the existing insurance services currently being offered.

Goodwill of $1.8 million, which is recorded on the balance sheet, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill was determined not to be deductible for income tax purposes. The fair value of other intangible assets of $1.6 million is related to client relationships, company name and noncompetition agreements.

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The following table summarizes the consideration paid for Bowers and the amounts of the assets acquired and liabilities assumed on the closing date of the acquisition.

(In Thousands of Dollars)	
Consideration	
Cash	$1,137
Stock	1,138
Contingent consideration	880
Fair value of total consideration transferred	$3,155
Fair value of assets acquired	
Cash	$64
Premises and equipment	290
Other assets	34
Total assets acquired	388
Fair value of liabilities assumed	124
Net assets acquired	$264
Assets and liabilities arising from acquisition	
Identified intangible assets	1,630
Deferred tax liability	(588)
Goodwill created	1,849
Total net assets acquired	$3,155

The following table presents pro forma information as if the above acquisition that occurred during June 2016 actually took place at the beginning of 2016. The pro forma information includes adjustments for merger related costs, amortization of intangibles arising from the transaction and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effective on the assumed date.

(In thousands of dollars except per share results)	For Three Months Ended June 30, 2016	For Six Months Ended June 30, 2016
Net interest income	$16,889	$33,636
Net income	$5,003	$9,789
Basic and diluted earnings per share	$0.18	$0.36

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 2017 and December 31, 2016 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017				
U.S. Treasury and U.S. government sponsored entities	$ 5,467	$ 14	$ (20)	$ 5,461
State and political subdivisions	175,801	3,101	(734)	178,168
Corporate bonds	1,238	7	(4)	1,241
Mortgage-backed securities - residential	171,498	1,153	(895)	171,756
Collateralized mortgage obligations - residential	19,652	3	(558)	19,097
Small Business Administration	15,825	0	(274)	15,551
Equity securities	173	182	(1)	354
Totals	$ 389,654	$ 4,460	$ (2,486)	$ 391,628

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(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
U.S. Treasury and U.S. government sponsored entities	$ 5,970	$ 5	$ (54)	$ 5,921
State and political subdivisions	157,014	1,049	(2,760)	155,303
Corporate bonds	1,343	4	(8)	1,339
Mortgage-backed securities - residential	171,215	1,019	(2,552)	169,682
Collateralized mortgage obligations - residential	21,397	1	(705)	20,693
Small Business Administration	17,236	0	(530)	16,706
Equity securities	168	185	(2)	351
Totals	$ 374,343	$ 2,263	$ (6,611)	$ 369,995

Proceeds from the sale of portfolio securities were $11.2 million during the three and $54.5 during the six month period ended June 30, 2017. Gross gains of $168 thousand and $730 thousand along with gross losses of $182 thousand and $731 thousand were realized on these sales during the three and six month periods ended June 30, 2017. Proceeds from the sale of portfolio securities were $9.2 million during the three and six month period ended June 30, 2016. Gross gains were $193 thousand along with gross losses of $152 thousand during the same three and six month period ended June 30, 2016.

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

(In Thousands of Dollars)	June 30, 2017 Amortized Cost	Fair Value
Maturity		
Within one year	$ 11,945	$ 11,997
One to five years	50,282	51,090
Five to ten years	104,186	105,633
Beyond ten years	16,093	16,150
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	206,975	206,404
Total	$ 389,481	$ 391,274

The following table summarizes the investment securities with unrealized losses at June 30, 2017 and December 31, 2016, aggregated by major security type and length of time in a continuous unrealized loss position. Unrealized losses for U.S. Treasury and U.S. government sponsored entities for more than twelve months, rounded to less than $1 thousand in 2016.

(In Thousands of Dollars)	Less than 12 Months Fair Value	Unrealized Loss	12 Months or Longer Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
June 30, 2017						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$2,392	$ (20)	$0	$ 0	$2,392	$ (20)
State and political subdivisions	33,517	(727)	291	(7)	33,808	(734)
Corporate bonds	582	(4)	0	0	582	(4)
Mortgage-backed securities - residential	61,503	(856)	1,861	(39)	63,364	(895)
Collateralized mortgage obligations - residential	7,241	(81)	10,271	(477)	17,512	(558)
Small Business Administration	8,176	(77)	7,336	(197)	15,512	(274)
Equity securities	28	(1)	0	0	28	(1)
Total	$113,439	$ (1,766)	$19,759	$ (720)	$133,198	$ (2,486)

(In Thousands of Dollars)	Less than 12 Months Fair Value	Unrealized Loss	12 Months or Longer Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
December 31, 2016						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$4,015	$ (54)	$502	$ 0	$4,517	$ (54)
State and political subdivisions	92,560	(2,745)	286	(15)	92,846	(2,760)
Corporate bonds	786	(8)	0	0	786	(8)
Mortgage-backed securities - residential	98,348	(1,823)	29,743	(729)	128,091	(2,552)
Collateralized mortgage obligations - residential	7,956	(108)	10,972	(597)	18,928	(705)
Small Business Administration	8,770	(205)	7,890	(325)	16,660	(530)
Equity securities	44	(2)	0	0	44	(2)
Total	$212,479	$ (4,945)	$49,393	$ (1,666)	$261,872	$ (6,611)

Other-Than-Temporary-Impairment

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

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

As of June 30, 2017, the Company's security portfolio consisted of 535 securities, 103 of which were in an unrealized loss position. The majority of the unrealized losses on the Company's securities are related to its holdings of mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities, and Small

Business Administration securities as discussed below.

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

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

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

Loans:

Loan balances were as follows:

(In Thousands of Dollars)	June 30, 2017	December 31, 2016
Originated loans:		
Commercial real estate		
Owner occupied	$124,664	$109,750
Non-owner occupied	182,900	165,861
Farmland	50,873	34,155
Other	78,496	70,823
Commercial		
Commercial and industrial	184,854	171,145
Agricultural	30,355	24,598
Residential real estate		
1-4 family residential	246,771	224,222
Home equity lines of credit	66,035	59,642
Consumer		
Indirect	166,835	156,633
Direct	27,995	26,663
Other	8,066	7,611
Total originated loans	$1,167,844	$1,051,103
Acquired loans:		
Commercial real estate		
Owner occupied	$56,330	$60,928
Non-owner occupied	20,969	24,949
Farmland	47,884	54,204
Other	13,485	14,665
Commercial		
	30,822	33,626

Commercial and industrial		
Agricultural	13,575	16,024
Residential real estate		
1-4 family residential	101,690	112,015
Home equity lines of credit	31,495	34,795
Consumer		
Direct	17,429	21,681
Other	129	247
Total acquired loans	$333,808	$373,134
Net Deferred loan costs	3,621	3,398
Allowance for loan losses	(11,746)	(10,852)
Net loans	$1,493,527	$1,416,783

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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:

(In Thousands of Dollars)	June 30, 2017	December 31, 2016
Commercial real estate		
Owner occupied	$707	$ 689
Non-owner occupied	394	436
Commercial		
Commercial and industrial	1,148	1,213
Total outstanding balance	$2,249	$ 2,338
Carrying amount, net of allowance of $0 in 2017 and 2016	$1,815	$ 1,864

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

(In Thousands of Dollars)	Six Months Ended June 30, 2017
Beginning balance	$ 247
New loans purchased	0
Accretion of income	(38)
Ending balance	$ 209

The key assumptions considered include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income and principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. There were no adjustments to forecasted cash flows that impacted the allowance for loan losses for the three and six month periods ended June 30, 2017.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and six month periods ended June 30, 2017 and 2016:

Three Months Ended June 30, 2017

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

Six Months Ended June 30, 2017

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

Three Months Ended June 30, 2016

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 3,181	$ 1,452	$ 1,914	$ 2,218	$ 625	$9,390
Provision for loan losses	335	212	196	521	(274)	990
Loans charged off	(307)	(37)	(44)	(431)	0	(819)
Recoveries	1	7	15	136	0	159
Total ending allowance balance	$ 3,210	$ 1,634	$ 2,081	$ 2,444	$ 351	$9,720

Six Months Ended June 30, 2016

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 3,127	$ 1,373	$ 1,845	$ 2,160	$ 473	$8,978
Provision for loan losses	378	276	271	967	(122)	1,770
Loans charged off	(307)	(37)	(78)	(975)	0	(1,397)
Recoveries	12	22	43	292	0	369
Total ending allowance balance	$ 3,210	$ 1,634	$ 2,081	$ 2,444	$ 351	$9,720

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment, based on impairment method as of June 30, 2017 and December 31, 2016. The recorded investment in loans includes the unpaid principal balance and unamortized loan origination fees and costs, but excludes accrued interest receivable, which is not considered to be material:

June 30, 2017

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 29	$ 4	$ 59	$ 0	$ 0	$ 92

Collectively evaluated for impairment	3,889	1,920	2,218	2,923	619	11,569
Acquired loans collectively evaluated for impairment	36	12	33	4	0	85
Acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending allowance balance	$ 3,954	$ 1,936	$ 2,310	$ 2,927	$ 619	$ 11,746
Loans:						
Loans individually evaluated for impairment	$ 1,948	$ 253	$ 3,388	$ 108	$ 0	$ 5,697
Loans collectively evaluated for impairment	433,957	214,691	309,146	208,407	0	1,166,201
Acquired loans	137,534	43,550	132,947	17,529	0	331,560
Acquired with deteriorated credit quality	969	846	0	0	0	1,815
Total ending loans balance	$ 574,408	$ 259,340	$ 445,481	$ 226,044	$ 0	$ 1,505,273

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December 31, 2016

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 86	$ 111	$ 52	$ 0	$ 0	$ 249
Collectively evaluated for impairment	3,491	1,763	2,153	2,766	430	10,603
Acquired loans collectively evaluated for impairment	0	0	0	0	0	0
Acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending allowance balance	$ 3,577	$ 1,874	$ 2,205	$ 2,766	$ 430	$ 10,852
Loans:						
Loans individually evaluated for impairment	$ 3,457	$ 477	$ 3,308	$ 96	$ 0	$ 7,338
Loans collectively evaluated for impairment	376,632	195,146	280,215	196,081	0	1,048,074
Acquired loans	153,228	48,536	146,672	21,923	0	370,359
Acquired with deteriorated credit quality	968	896	0	0	0	1,864
Total ending loans balance	$ 534,285	$ 245,055	$ 430,195	$ 218,100	$ 0	$ 1,427,635

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The following tables present information related to impaired loans by class of loans as of June 30, 2017 and December 31, 2016:

(In Thousands of Dollars)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
June 30, 2017			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	$ 1,198	$ 681	$ 0
Non-owner occupied	18	18	0
Commercial			
Commercial and industrial	203	182	0
Agricultural	123	0	0
Residential real estate			
1-4 family residential	2,466	2,221	0
Home equity lines of credit	306	284	0
Consumer	207	108	0
Subtotal	4,521	3,494	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	163	163	7
Non-owner occupied	1,086	1,086	22
Commercial			
Commercial and industrial	71	71	4
Residential real estate			
1-4 family residential	831	795	56
Home equity lines of credit	91	88	3
Subtotal	2,242	2,203	92
Total	$ 6,763	$ 5,697	$ 92

(In Thousands of Dollars)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
December 31, 2016			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	$ 1,974	$ 1,456	$ 0
Non-owner occupied	332	331	0
Commercial			
Commercial and industrial	205	184	0
Residential real estate			
1-4 family residential	2,650	2,403	0
Home equity lines of credit	195	179	0
Consumer	205	96	0
Subtotal	5,561	4,649	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	173	173	14
Non-owner occupied	1,118	1,118	30
Farmland	380	379	42
Commercial			
Commercial and industrial	75	75	4
Agricultural	219	218	107
Residential real estate			
1-4 family residential	661	642	51
Home equity lines of credit	84	84	1
Subtotal	2,710	2,689	249
Total	$ 8,271	$ 7,338	$ 249

The following tables present the average recorded investment in impaired loans by class and interest income recognized by loan class for the three and six month periods ended June 30, 2017 and 2016:

(In Thousands of Dollars)	Average Recorded Investment For Three Months Ended June 30, 2017	2016	Interest Income Recognized For Three Months Ended June 30, 2017	2016
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$682	$1,266	$2	$28
Non-owner occupied	18	334	0	0
Farmland	17	0	0	0
Commercial				
Commercial and industrial	182	331	1	5
Agricultural production	15	0	0	0
Residential real estate				
1-4 family residential	2,251	2,249	35	33
Home equity lines of credit	326	227	3	3
Consumer	105	86	4	3
Subtotal	3,596	4,493	45	72
With an allowance recorded:				
Commercial real estate				
Owner occupied	164	908	2	9
Non-owner occupied	1,092	1,401	14	19
Commercial				
Commercial and industrial	72	78	1	1
Residential real estate				
1-4 family residential	794	845	9	11
Home equity lines of credit	84	86	1	1
Consumer	0	0	0	0
Subtotal	2,206	3,318	27	41
Total	$5,802	$7,811	$72	$113

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(In Thousands of Dollars)	Average Recorded Investment For Six Months Ended June 30, 2017	2016	Interest Income Recognized For Six Months Ended June 30, 2017	2016
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$851	$1,786	$5	$38
Non-owner occupied	122	335	1	4
Farmland	24	0	0	0
Commercial				
Commercial and industrial	183	472	2	10
Agricultural	21	0	0	0
Residential real estate				
1-4 family residential	2,315	2,270	72	71
Home equity lines of credit	276	234	7	6
Consumer	90	101	6	6
Subtotal	3,882	5,198	93	135
With an allowance recorded:				
Commercial real estate				
Owner occupied	166	1,248	4	18
Non-owner occupied	1,099	1,435	28	38
Farmland	126	0	0	0
Commercial				
Commercial and industrial	73	79	2	2
Agricultural	100	0	0	0
Residential real estate				
1-4 family residential	784	797	17	20
Home equity lines of credit	84	86	2	2
Subtotal	2,432	3,645	53	80
Total	$6,314	$8,843	$146	$215

Cash basis interest recognized during the three and six month periods ended June 30, 2017 and 2016 was materially equal to interest income recognized.

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

The following table presents the recorded investment in nonaccrual and loans past due 90 days or more still on accrual by class of loans as of June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
(In Thousands of Dollars)	Nonaccrual	Loans Past Due 90 Days or More Still Accruing	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
Originated loans:				
Commercial real estate				
Owner occupied	$549	$ 0	$958	$ 0
Non-owner occupied	18	0	343	0
Farmland	51	0	58	0
Commercial				
Commercial and industrial	297	0	400	0
Agricultural	2	0	12	0
Residential real estate				
1-4 family residential	1,667	537	1,929	295
Home equity lines of credit	532	22	202	118
Consumer				
Indirect	396	182	298	438
Direct	6	36	9	65
Other	0	0	0	16
Total originated loans	$3,518	$ 777	$4,209	$ 932
Acquired loans:				
Commercial real estate				
Owner occupied	$34	$ 0	$85	$ 0
Non-owner occupied	185	0	0	0
Other	0	0	24	0
Farmland	0	0	380	0
Commercial				
Commercial and industrial	879	0	961	0
Agricultural	18	0	236	0
Residential real estate				
1-4 family residential	402	124	386	545
Home equity lines of credit	215	38	119	109
Consumer				
Direct	135	30	89	95
Total acquired loans	$1,868	$ 192	$2,280	$ 749
Total loans	$5,386	$ 969	$6,489	$ 1,681

The following tables present the aging of the recorded investment in past due loans as of June 30, 2017 and December 31, 2016 by class of loans:

(In Thousands of Dollars)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Nonaccrual	Total Past Due	Loans Not Past Due	Total
June 30, 2017						
Originated loans:						
Commercial real estate						
Owner occupied	$0	$0	$ 549	$549	$123,757	$124,306
Non-owner occupied	0	0	18	18	182,415	182,433
Farmland	0	0	51	51	50,763	50,814
Other	0	0	0	0	78,184	78,184
Commercial						
Commercial and industrial	121	0	297	418	184,079	184,497
Agricultural	35	0	2	37	30,409	30,446
Residential real estate						
1-4 family residential	1,520	465	2,204	4,189	242,033	246,222
Home equity lines of credit	123	80	554	757	65,314	66,071
Consumer						
Indirect	1,924	430	578	2,932	169,298	172,230
Direct	456	240	42	738	27,452	28,190
Other	30	17	0	47	8,018	8,065
Total originated loans:	$4,209	$1,232	$ 4,295	$9,736	$1,161,722	$1,171,458
Acquired loans:						
Commercial real estate						
Owner occupied	$323	$49	$ 34	$406	$55,925	$56,331
Non-owner occupied	0	0	185	185	20,769	20,954
Farmland	0	0	0	0	47,885	47,885
Other	0	0	0	0	13,501	13,501
Commercial						
Commercial and industrial	69	1	879	949	29,872	30,821
Agricultural	10	0	18	28	13,548	13,576
Residential real estate						
1-4 family residential	479	184	526	1,189	100,504	101,693
Home equity lines of credit	116	0	253	369	31,126	31,495
Consumer						
Direct	341	40	165	546	16,884	17,430
Other	0	0	0	0	129	129
Total acquired loans	$1,338	$274	$ 2,060	$3,672	$330,143	$333,815
Total loans	$5,547	$1,506	$ 6,355	$13,408	$1,491,865	$1,505,273

(In Thousands of Dollars)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Nonaccrual	Total Past Due	Loans Not Past Due	Total
December 31, 2016						
Originated loans:						
Commercial real estate						
Owner occupied	$0	$0	$ 958	$958	$108,475	$109,433
Non-owner occupied	0	0	343	343	165,105	165,448
Farmland	0	0	58	58	34,057	34,115
Other	0	0	0	0	70,542	70,542
Commercial						
Commercial and industrial	90	0	400	490	170,242	170,732
Agricultural	0	29	12	41	24,632	24,673
Residential real estate						
1-4 family residential	3,368	356	2,224	5,948	217,752	223,700
Home equity lines of credit	77	37	320	434	59,248	59,682
Consumer						
Indirect	2,844	696	736	4,276	157,437	161,713
Direct	744	213	74	1,031	25,815	26,846
Other	92	28	16	136	7,476	7,612
Total originated loans	$7,215	$1,359	$ 5,141	$13,715	$1,040,781	$1,054,496
Acquired loans:						