FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
August 08, 2016

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, 2016

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 x 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 x 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 x
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 x

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, 2016
Common Stock, No Par Value	27,047,664 shares

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	June 30,	December 31,
(Unaudited)	2016	2015
ASSETS		
Cash and due from banks	$ 20,399	$ 22,500
Federal funds sold and other	41,785	33,514
TOTAL CASH AND CASH EQUIVALENTS	62,184	56,014
Securities available for sale	378,432	394,312
Loans held for sale	1,737	1,769
Loans	1,358,484	1,296,865
Less allowance for loan losses	9,720	8,978
NET LOANS	1,348,764	1,287,887
Premises and equipment, net	24,105	24,190
Goodwill	36,939	35,090
Other intangibles	8,779	7,821
Bank owned life insurance	29,648	29,234
Other assets	34,531	33,585
TOTAL ASSETS	$ 1,925,119	$ 1,869,902
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 339,364	$ 314,650
Interest-bearing	1,108,078	1,094,397
TOTAL DEPOSITS	1,447,442	1,409,047
Short-term borrowings	228,176	225,832
Long-term borrowings	19,758	22,153
Other liabilities	17,252	14,823
TOTAL LIABILITIES	1,712,628	1,671,855
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 35,000,000 shares; issued 27,713,811 in 2016 and 27,590,531 in 2015	177,826	176,287
Retained earnings	33,973	26,316
Accumulated other comprehensive income	5,549	133
Treasury stock, at cost; 666,147 shares in 2016 and 646,247 in 2015	(4,857)	(4,689)
TOTAL STOCKHOLDERS' EQUITY	212,491	198,047
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,925,119	$ 1,869,902

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)	2016	2015	2016	2015
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$15,623	$8,634	$30,893	$16,318
Taxable securities	1,288	1,405	2,725	3,052
Tax exempt securities	899	662	1,788	1,277
Dividends	113	46	226	94
Federal funds sold and other interest income	27	6	65	11
TOTAL INTEREST AND DIVIDEND INCOME	17,950	10,753	35,697	20,752
INTEREST EXPENSE				
Deposits	793	879	1,500	1,766
Short-term borrowings	144	16	319	27
Long-term borrowings	124	109	242	218
TOTAL INTEREST EXPENSE	1,061	1,004	2,061	2,011
NET INTEREST INCOME	16,889	9,749	33,636	18,741
Provision for loan losses	990	850	1,770	1,300
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,899	8,899	31,866	17,441
NONINTEREST INCOME				
Service charges on deposit accounts	987	672	1,922	1,275
Bank owned life insurance income	202	165	414	304
Trust fees	1,564	1,509	3,060	3,156
Insurance agency commissions	293	118	432	264
Security gains	41	35	41	45
Retirement plan consulting fees	496	778	985	1,282
Investment commissions	356	256	592	554
Net gains on sale of loans	540	156	942	279
Debit card interchange fees	657	312	1,283	593
Other operating income	601	408	1,012	694
TOTAL NONINTEREST INCOME	5,737	4,409	10,683	8,446
NONINTEREST EXPENSES				
Salaries and employee benefits	7,740	5,663	15,294	11,205
Occupancy and equipment	1,616	1,201	3,280	2,312
State and local taxes	394	243	787	488
Professional fees	754	546	1,283	1,022
Merger related costs	224	1,912	513	2,157
Advertising	363	282	708	499
FDIC insurance	286	178	569	355
Intangible amortization	335	167	672	334
Core processing charges	580	382	1,218	763
Other operating expenses	2,491	1,513	4,903	2,703
TOTAL NONINTEREST EXPENSES	14,783	12,087	29,227	21,838

INCOME BEFORE INCOME TAXES	6,853	1,221	13,322	4,049
INCOME TAXES	1,833	409	3,504	1,026
NET INCOME	$5,020	$812	$9,818	$3,023
EARNINGS PER SHARE - basic and diluted	$0.19	$0.04	$0.36	$0.16

See accompanying notes

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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)	2016	2015	2016	2015
NET INCOME	$5,020	$812	$9,818	$3,023
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on available for sale securities	5,020	(5,447)	8,377	(3,136)
Reclassification adjustment for (gains) realized in income	(41)	(35)	(41)	(45)
Net unrealized holding gains (losses)	4,979	(5,482)	8,336	(3,181)
Income tax effect	(1,745)	1,919	(2,920)	1,113
Other comprehensive income (loss), net of tax	3,234	(3,563)	5,416	(2,068)
TOTAL COMPREHENSIVE INCOME (LOSS)	$8,254	$(2,751)	$15,234	$955

See accompanying notes

CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars) For the Six Months Ended June 30, 2016
COMMON STOCK	
Beginning balance	$ 176,287
Issued 123,280 shares as part of business combination	1,138
Stock compensation expense for 383,222 unvested shares	401
Ending balance	177,826
RETAINED EARNINGS	
Beginning balance	26,316
Net income	9,818
Dividends declared at $.04 per share	(2,161)
Ending balance	33,973
ACCUMULATED OTHER COMPREHENSIVE INCOME	
Beginning balance	133
Other comprehensive income	5,416
Ending balance	5,549
TREASURY STOCK, AT COST	
Beginning balance	(4,689)
Purchased 19,900 shares	(168)
Ending balance	(4,857)
TOTAL STOCKHOLDERS' EQUITY	$ 212,491

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars) Six Months Ended	
	June 30,	June 30,
(Unaudited)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$9,818	$3,023
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,770	1,300
Depreciation and amortization	1,787	938
Net amortization of securities	1,100	859
Security gains	(41)	(45)
Gain on asset sale	(262)	0
Stock compensation expense	401	116
Loss on sale of other real estate owned	221	14
Earnings on bank owned life insurance	(414)	(304)
Origination of loans held for sale	(29,698)	(8,442)
Proceeds from loans held for sale	30,672	8,833
Net gains on sale of loans	(942)	(279)
Net change in other assets and liabilities	(6,807)	(2,780)
NET CASH FROM OPERATING ACTIVITIES	7,605	3,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	29,331	32,279
Proceeds from sales of securities available for sale	9,191	54,957
Purchases of securities available for sale	(12,252)	(35,745)
Loan originations and payments, net	(62,905)	(42,577)
Proceeds from sale of other real estate owned	407	199
Purchase of bank owned life insurance	0	(6,000)
Proceeds from sale of real estate	352	0
Additions to premises and equipment	(464)	(687)
Net cash (paid) received in business combinations	(1,073)	21,303
NET CASH FROM INVESTING ACTIVITIES	(37,413)	23,729
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	38,395	(18,795)
Net change in short-term borrowings	2,344	13,037
Repayment of long-term borrowings	(2,432)	(55,500)
New advances for long-term borrowings	0	45,000
Cash dividends paid	(2,161)	(1,104)
Repurchase of common shares	(168)	0
NET CASH FROM FINANCING ACTIVITIES	35,978	(17,362)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,170	9,600
Beginning cash and cash equivalents	56,014	27,428
Ending cash and cash equivalents	$62,184	$37,028
Supplemental cash flow information:		

Interest paid	$2,001	$1,861
Income taxes paid	$4,300	$1,490
Supplemental noncash disclosures:		
Transfer of loans to other real estate	$258	$453
Security purchases not settled	$3,105	$527
Issuance of stock for business combinations	$1,138	$59,048

See accompanying notes

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 Bank acquired Bowers Insurance Agency, Inc. (the "Bowers Group") and consolidated the activity of the Bowers Group 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. The consolidated financial statements also include the accounts of the Farmers National Bank of Canfield's subsidiaries; Farmers National 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 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 2015 Annual Report to Shareholders included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. 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.

New Accounting Standards:

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The revised accounting guidance will remove all recognition thresholds and will require a company to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. It also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019. Management is currently evaluating the impact of adopting this new accounting guidance on Company’s consolidated financial statements.

Business Combinations:

On June 1, 2016, the Bank completed the acquisition of the Bowers Insurance Agency, Inc., and merged all activity of the Bowers Group 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 Group meeting performance targets, with an estimated fair value at the acquisition date of $880 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.

The following table summarizes the consideration paid for Bowers Group 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 liabilty	(588)
Goodwill created	1,849
Total net assets acquired	$3,155

Valuation of some assets acquired or created including intangible assets and goodwill are preliminary and could be subject to change.

On October 1, 2015, the Company completed the acquisition of Tri-State, the parent company of FNCB. The transaction involved both cash and 1,296,517 shares of stock totaling $14.3 million. Pursuant to the terms of the merger agreement, common shareholders of Tri-State received 1.747 common shares, without par value, of the Company or $14.20 in cash, for each common share of Tri-State, subject to proration provisions specified in the merger agreement that provide for a targeted aggregate split of total consideration consisting of 75% shares of Farmers' common stock 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.

Goodwill of $2.8 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 $1.2 million is related to core deposits.

On June 19, 2015, the Company completed the acquisition of all outstanding stock of NBOH, the parent company of First National Bank of Orrville. 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, 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 $4.4 million is related to core deposits.

The acquisitions provide an attractive mix of additional loans and deposits and helps the Company achieve additional operating scale that will drive earnings per share growth. In addition to the financial benefits, the merger is a significant step in the Company's strategy to expand its footprint.

The following table summarizes the consideration paid for Tri-State and NBOH and the amounts of the assets acquired and liabilities assumed on the closing date of each acquisition.

	(In Thousands of Dollars)	
	Tri-State	NBOH
Consideration		
Cash	$3,607	$15,732
Stock	10,733	59,048
Fair value of total consideration transferred	$14,340	$74,780
Fair value of assets acquired		
Cash and due from financial institutions	$13,553	$37,035
Securities available for sale	48,300	51,340
Loans, net	66,374	430,035
Premises and equipment	1,935	6,105
Bank owned life insurance	3,274	2,891
Core deposit intangible	1,173	4,409
Other assets	1,329	7,996
Total assets	135,938	539,811
Fair value of liabilities assumed		
Deposits	114,342	423,661
Short-term borrowings	0	65,537
Long-term borrowings	2,002	0
Accrued interest payable and other liabilities	8,072	2,514
Total liabilities	124,416	491,712
Net assets acquired	$11,522	$48,099
Goodwill created	2,818	26,681
Total net assets acquired	$14,340	$74,780

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to the financial instruments acquired from Tri-State will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans. Purchase credit impaired loans would have shown evidence of credit deterioration since origination.

The following table presents pro forma information as if the above three acquisitions that occurred during 2015 and 2016 actually took place at the beginning of 2015. 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	2015	For Six Months Ended June 30, 2016	2015
Net interest income	$16,889	$15,681	$33,636	$30,444
Net income	$5,054	$3,604	$9,904	$7,644
Basic and diluted earnings per share	$0.19	$0.14	$0.37	$0.30

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 2016 and December 31, 2015 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, 2016				
U.S. Treasury and U.S. government sponsored entities	$ 6,323	$ 111	$ (1)	$ 6,433
State and political subdivisions	138,751	4,972	(14)	143,709
Corporate bonds	1,240	20	0	1,260
Mortgage-backed securities - residential	181,730	3,514	(302)	184,942
Collateralized mortgage obligations - residential	23,413	109	(259)	23,263
Small Business Administration	18,505	100	(34)	18,571
Equity securities	139	119	(4)	254
Totals	$ 370,101	$ 8,945	$ (614)	$ 378,432

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U.S. Treasury and U.S. government sponsored entities	$ 11,120	$ 38	$ (52)	$ 11,106
State and political subdivisions	136,781	2,354	(412)	138,723
Corporate bonds	1,134	5	(5)	1,134
Mortgage-backed securities - residential	197,289	1,433	(2,135)	196,587
Collateralized mortgage obligations - residential	28,035	0	(870)	27,165
Small Business Administration	19,755	1	(457)	19,299
Equity securities	203	127	(32)	298
Totals	$ 394,317	$ 3,958	$ (3,963)	$ 394,312

Proceeds from the sale of portfolio securities were $9.2 million during the three and six month periods ended June 31, 2016. Gross gains of $193 thousand and gross losses of $152 thousand were realized on these sales during the three and six month periods ended June 30, 2016. Proceeds from the sale of portfolio securities were $19.4 million during the three month period and $55.0 million during the six month period ended June 30, 2015. Gross gains were $36 thousand and $109 thousand along with gross losses of $1 thousand and $64 thousand during the same three and six month periods ended June 30, 2015.

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.

	June 30, 2016	
(In Thousands of Dollars)	Amortized Cost	Fair Value
Maturity		
Within one year	$10,669	$10,732
One to five years	61,633	63,293
Five to ten years	59,524	62,631
Beyond ten years	14,488	14,746
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	223,648	226,776
Total	$369,962	$378,178

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The following table summarizes the investment securities with unrealized losses at June 30, 2016 and December 31, 2015, aggregated by major security type and length of time in a continuous unrealized loss position.

(In Thousands of Dollars)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or Longer Fair Value	12 Months or Longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
June 30, 2016						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$514	$ (1)	$0	$ 0	$514	$ (1)
State and political subdivisions	1,694	(14)	0	0	1,694	(14)
Mortgage-backed securities - residential	6,802	(16)	28,141	(286)	34,943	(302)
Collateralized mortgage obligations - residential	0	0	12,187	(259)	12,187	(259)
Small Business Administration	0	0	8,699	(34)	8,699	(34)
Equity securities	119	(4)	0	0	119	(4)
Total	$9,129	$ (35)	$49,027	$ (579)	$58,156	$ (614)

(In Thousands of Dollars)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or Longer Fair Value	12 Months or Longer Unrealized Loss	Total Fair Value	Total Unrealized Loss
December 31, 2015						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$6,044	$ (51)	$199	$ (1)	$6,243	$ (52)
State and political subdivisions	22,016	(167)	12,635	(245)	34,651	(412)
Corporate bonds	102	(1)	478	(4)	580	(5)
Mortgage-backed securities - residential	79,301	(1,044)	40,794	(1,091)	120,095	(2,135)
Collateralized mortgage obligations - residential	14,342	(169)	12,695	(701)	27,037	(870)
Small Business Administration	0	0	19,237	(457)	19,237	(457)
Equity securities	88	(32)	0	0	88	(32)
Total	$121,893	$ (1,464)	$86,038	$ (2,499)	$207,931	$ (3,963)

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, 2016, the Company's security portfolio consisted of 470 securities, 46 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:

(In Thousands of Dollars)	June 30, 2016	December 31, 2015
Originated loans:		
Commercial real estate		
Owner occupied	$127,504	$113,160
Non-owner occupied	146,959	139,502
Other	57,568	50,855
Commercial	179,963	157,447
Residential real estate		
1-4 family residential	206,121	179,657
Home equity lines of credit	50,290	41,171
Consumer		
Indirect	139,424	127,335
Direct	21,193	17,325
Other	5,359	4,508
Subtotal	$934,381	$830,960
	2,943	2,731

Net deferred loan costs		
Allowance for loan losses	(9,717)	(8,947)
Total originated loans	$927,607	$824,744
Acquired loans:		
Commercial real estate		
Owner occupied	$128,009	$131,673
Non-owner occupied	25,513	28,045
Other	17,542	23,536
Commercial	61,077	73,621
Residential real estate		
1-4 family residential	124,389	133,701
Home equity lines of credit	38,374	40,929
Consumer		
Direct	26,017	31,465
Other	239	204
Subtotal	$421,160	$463,174
Allowance for loan losses	(3)	(31)
Total acquired loans	421,157	463,143
Net loans	$1,348,764	$1,287,887

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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, 2016	December 31, 2015
Commercial real estate		
Owner occupied	$822	$ 986
Non-owner occupied	460	501
Commercial	1,260	1,576
Total outstanding balance	$2,542	$ 3,063
Carrying amount, net of allowance of $3 in 2016 and $31 in 2015	$2,028	$ 2,184

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

(In Thousands of Dollars)	Six Months Ended June 30, 2016
Beginning balance	$ 323
New loans purchased	0
Accretion of income	(38)
Ending balance	$ 285

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 six months ended June 30, 2016.

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, 2016 and 2015:

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

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Three Months Ended June 30, 2015

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 2,917	$ 1,351	$ 1,640	$ 1,705	$ 110	$7,723
Provision for loan losses	223	183	49	505	(110)	850
Loans charged off	(516)	(254)	(160)	(566)	0	(1,496)
Recoveries	9	0	19	181	0	209
Total ending allowance balance	$ 2,633	$ 1,280	$ 1,548	$ 1,825	$ 0	$7,286

Six Months Ended June 30, 2015

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 2,676	$ 1,420	$ 1,689	$ 1,663	$ 184	$7,632
Provision for loan losses	455	113	59	857	(184)	1,300
Loans charged off	(520)	(254)	(241)	(1,099)	0	$(2,114)
Recoveries	22	1	41	404	0	468
Total ending allowance balance	$ 2,633	$ 1,280	$ 1,548	$ 1,825	$ 0	$7,286

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 June 30, 2016 and December 31, 2015. 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, 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	$ 70	$ 5	$ 76	$ 0	$ 0	$ 151
Collectively evaluated for impairment	3,140	1,626	2,005	2,444	351	9,566
Acquired loans	0	0	0	0	0	0
Acquired with deteriorated credit quality	0	3	0	0	0	3

Total ending allowance balance	$ 3,210	$ 1,634	$ 2,081	$ 2,444	$ 351	$ 9,720
Loans:						
Loans individually evaluated for impairment	$ 3,452	$ 405	$ 3,428	$ 79	$ 0	$ 7,364
Loans collectively evaluated for impairment	327,707	179,190	252,521	170,542	0	929,960
Acquired loans	169,962	60,148	162,763	26,256	0	419,129
Acquired with deteriorated credit quality	1,102	929	0	0	0	2,031
Total ending loans balance	$ 502,223	$ 240,672	$ 418,712	$ 196,877	$ 0	$ 1,358,484

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December 31, 2015

(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	$ 429	$ 5	$ 63	$ 0	$ 0	$ 497
Collectively evaluated for impairment	2,698	1,337	1,782	2,160	473	8,450
Acquired loans	0	0	0	0	0	0
Acquired with deteriorated credit quality	0	31	0	0	0	31
Total ending allowance balance	$ 3,127	$ 1,373	$ 1,845	$ 2,160	$ 473	$ 8,978
Loans:						
Loans individually evaluated for impairment	$ 5,853	$ 712	$ 3,414	$ 103	$ 0	$ 10,082
Loans collectively evaluated for impairment	296,866	156,415	217,023	153,305	0	823,609
Acquired loans	181,987	72,673	174,630	31,669	0	460,959
Acquired with deteriorated credit quality	1,267	948	0	0	0	2,215
Total ending loans balance	$ 485,973	$ 230,748	$ 395,067	$ 185,077	$ 0	$ 1,296,865

The following tables present information related to impaired loans by class of loans as of June 30, 2016 and December 31, 2015:

(In Thousands of Dollars)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
June 30, 2016			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	$ 1,772	$ 1,253	$ 0
Non-owner occupied	335	334	0
Commercial	349	327	0
Residential real estate			
1-4 family residential	2,495	2,207	0
Home equity lines of credit	240	225	0
Consumer	157	79	0
Subtotal	5,348	4,425	0
With an allowance recorded:			
Commercial real estate			

Owner occupied	572	570	31
Non-owner occupied	1,295	1,295	39
Commercial	78	78	5
Residential real estate			
1-4 family residential	927	910	75
Home equity lines of credit	86	86	1
Subtotal	2,958	2,939	151
Total	$ 8,306	$ 7,364	$ 151

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(In Thousands of Dollars)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
December 31, 2015			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	$ 2,956	$ 2,436	$ 0
Non-owner occupied	343	342	0
Commercial	834	631	0
Residential real estate			
1-4 family residential	2,575	2,310	0
Home equity lines of credit	283	268	0
Consumer	214	103	0
Subtotal	7,205	6,090	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	1,597	1,595	379
Non-owner occupied	1,480	1,480	50
Commercial	81	81	5
Residential real estate			
1-4 family residential	769	749	61
Home equity lines of credit	87	87	2
Subtotal	4,014	3,992	497
Total	$ 11,219	$ 10,082	$ 497

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, 2016 and 2015:

(In Thousands of Dollars)	Average Recorded Investment For Three Months Ended June 30, 2016	2015	Interest Income Recognized For Three Months Ended June 30, 2016	2015
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$ 1,266	$ 2,226	$ 28	$ 29

Non-owner occupied	334	380	0	7
Commercial	331	409	5	5
Residential real estate				
1-4 family residential	2,249	2,108	33	38
Home equity lines of credit	227	275	3	4
Consumer	86	81	3	3
Subtotal	4,493	5,479	72	86
With an allowance recorded:				
Commercial real estate				
Owner occupied	908	2,680	9	24
Non-owner occupied	1,401	1,520	19	20
Commercial	78	457	1	1
Residential real estate				
1-4 family residential	845	908	11	11
Home equity lines of credit	86	89	1	1
Subtotal	3,318	5,654	41	57
Total	$7,811	$11,133	$113	$143

(In Thousands of Dollars)	Average Recorded Investment For Six Months Ended June 30, 2016	2015	Interest Income Recognized For Six Months Ended June 30, 2016	2015
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$1,786	$2,268	$38	$45
Non-owner occupied	335	383	4	13
Commercial	472	436	10	11
Residential real estate				
1-4 family residential	2,270	2,116	71	69
Home equity lines of credit	234	263	6	7
Consumer	101	86	6	7
Subtotal	5,198	5,552	135	152
With an allowance recorded:				
Commercial real estate				
Owner occupied	1,248	1,818	18	48
Non-owner occupied	1,435	1,528	38	40
Commercial	79	787	2	2
Residential real estate				
1-4 family residential	797	945	20	20
Home equity lines of credit	86	89	2	2
Consumer	0	0	0	0
Subtotal	3,645	5,167	80	112
Total	$8,843	$10,719	$215	$264

Cash basis interest recognized during the three and six month periods ended June 30, 2016 and 2015 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, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(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	$1,104	$ 0	$3,313	$ 0
Non-owner occupied	334	0	345	0
Commercial	346	0	541	73
Residential real estate				
1-4 family residential	2,294	399	2,406	336
Home equity lines of credit	172	13	127	112
Consumer				
Indirect	200	49	266	297
Direct	12	118	30	3
Other	0	1	0	24
Total originated loans	$4,462	$ 580	$7,028	$ 845
Acquired loans:				
Commercial real estate				
Owner occupied	$492	$ 232	$126	$ 18
Other	58	0	92	0
Commercial	1,240	173	1,068	0
Residential real estate				
1-4 family residential	402	480	458	467
Home equity lines of credit	122	32	125	7
Consumer				
Direct				