

FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
November 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 September 30, 2016

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at October 31, 2016
Common Stock, No Par Value	27,047,664 shares

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

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10-Q Certifications

Section 906 Certifications

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	September 30,	December 31,
(Unaudited)	2016	2015
ASSETS		
Cash and due from banks	\$ 18,739	\$ 22,500
Federal funds sold and other	48,633	33,514
TOTAL CASH AND CASH EQUIVALENTS	67,372	56,014
Securities available for sale	368,729	394,312
Loans held for sale	2,148	1,769
Loans	1,395,620	1,296,865
Less allowance for loan losses	10,518	8,978
NET LOANS	1,385,102	1,287,887
Premises and equipment, net	23,502	24,190
Goodwill	36,939	35,090
Other intangibles	8,359	7,821
Bank owned life insurance	29,842	29,234
Other assets	39,015	33,585
TOTAL ASSETS	\$ 1,961,008	\$ 1,869,902
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 352,441	\$ 314,650
Interest-bearing	1,139,724	1,094,397
TOTAL DEPOSITS	1,492,165	1,409,047
Short-term borrowings	216,525	225,832
Long-term borrowings	19,232	22,153
Other liabilities	17,649	14,823
TOTAL LIABILITIES	1,745,571	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	178,027	176,287
Retained earnings	38,266	26,316
Accumulated other comprehensive income	4,001	133
Treasury stock, at cost; 666,147 shares in 2016 and 646,247 in 2015	(4,857)	(4,689)
TOTAL STOCKHOLDERS' EQUITY	215,437	198,047
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,961,008	\$ 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 Nine Months Ended	
Sept. 30,	Sept. 30,	Sept. 30,	Sept. 30,

2016	2015	2016	2015
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(Unaudited)	2016	2015	2016	2015
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 16,048	\$ 13,385	\$ 46,941	\$ 29,703
Taxable securities	1,160	1,369	3,885	4,421
Tax exempt securities	893	783	2,681	2,060
Dividends	177	48	403	142
Federal funds sold and other interest income	54	9	119	20
TOTAL INTEREST AND DIVIDEND INCOME	18,332	15,594	54,029	36,346
INTEREST EXPENSE				
Deposits	858	909	2,358	2,675
Short-term borrowings	166	59	485	86
Long-term borrowings	115	88	357	306
TOTAL INTEREST EXPENSE	1,139	1,056	3,200	3,067
NET INTEREST INCOME	17,193	14,538	50,829	33,279
Provision for loan losses	1,110	1,220	2,880	2,520
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,083	13,318	47,949	30,759
NONINTEREST INCOME				
Service charges on deposit accounts	1,057	929	2,979	2,204
Bank owned life insurance income	194	184	608	488
Trust fees	1,693	1,482	4,753	4,638
Insurance agency commissions	569	130	1,001	394
Security gains	31	3	72	48
Retirement plan consulting fees	561	423	1,546	1,705
Investment commissions	308	332	900	886
Net gains on sale of loans	1,063	415	2,005	694
Debit card interchange fees	653	506	1,936	1,196
Other operating income	356	281	1,368	878
TOTAL NONINTEREST INCOME	6,485	4,685	17,168	13,131
NONINTEREST EXPENSES				
Salaries and employee benefits	8,366	7,244	23,660	18,449
Occupancy and equipment	1,587	1,368	4,867	3,680
State and local taxes	394	400	1,181	888
Professional fees	671	738	1,954	1,760
Merger related costs	31	2,499	544	4,656
Advertising	383	344	1,091	843
FDIC insurance	287	256	856	611
Intangible amortization	421	304	1,093	638
Core processing charges	738	643	1,956	1,406
Other operating expenses	2,347	1,725	7,250	4,428

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TOTAL NONINTEREST EXPENSES	15,225	15,521	44,452	37,359
INCOME BEFORE INCOME TAXES	7,343	2,482	20,665	6,531
INCOME TAXES	1,967	625	5,471	1,651
NET INCOME	\$5,376	\$1,857	\$15,194	\$4,880
EARNINGS PER SHARE - basic and diluted	\$0.20	\$0.07	\$0.56	\$0.23

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		For the Nine Months	
	Months Ended		Ended	
	September	September	September	September
	30,	30,	30,	30,
(Unaudited)	2016	2015	2016	2015
NET INCOME	\$5,376	\$ 1,857	\$15,194	\$ 4,880
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on available for sale securities	(2,350)	3,557	6,021	421
Reclassification adjustment for (gains) realized in income	(31)	(3)	(72)	(48)
Net unrealized holding gains (losses)	(2,381)	3,554	5,949	373
Income tax effect	833	(1,244)	(2,081)	(131)
Other comprehensive income (loss), net of tax	(1,548)	2,310	3,868	242
TOTAL COMPREHENSIVE INCOME	\$3,828	\$ 4,167	\$19,062	\$ 5,122

See accompanying notes

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)
	For the
	Nine Months Ended
(Unaudited)	September 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	602
Ending balance	178,027
RETAINED EARNINGS	
Beginning balance	26,316
Net income	15,194
Dividends declared at \$.12 per share	(3,244)
Ending balance	38,266
ACCUMULATED OTHER COMPREHENSIVE INCOME	
Beginning balance	133
Other comprehensive income	3,868
Ending balance	4,001
TREASURY STOCK, AT COST	
Beginning balance	(4,689)
Purchased 19,900 shares	(168)
Ending balance	(4,857)
TOTAL STOCKHOLDERS' EQUITY	\$ 215,437

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

	(In Thousands of Dollars)	
	Nine Months Ended	
	September 30,	September 30,
(Unaudited)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 15,194	\$ 4,880
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	2,880	2,520
Depreciation and amortization	2,745	1,689
Net amortization of securities	1,677	1,510
Security gains	(72)	(48)
Gain on land and building sales, net	(238)	0
Stock compensation expense	602	275
Loss on sale of other real estate owned	240	18
Earnings on bank owned life insurance	(608)	(488)
Origination of loans held for sale	(48,165)	(12,295)
Proceeds from loans held for sale	49,791	12,934
Net gains on sale of loans	(2,005)	(694)
Net change in other assets and liabilities	(8,221)	(2,978)
NET CASH FROM OPERATING ACTIVITIES	13,820	7,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	46,483	44,047
Proceeds from sales of securities available for sale	11,480	58,240
Purchases of securities available for sale	(26,848)	(41,346)
Loan originations and payments, net	(100,396)	(91,721)
Proceeds from sale of other real estate owned	497	552
Purchase of bank owned life insurance	0	(6,000)
Proceeds from land and building sales	479	0
Additions to premises and equipment	(512)	(1,160)
Net cash (paid) received in business combinations	(1,073)	21,303
NET CASH FROM INVESTING ACTIVITIES	(69,890)	(16,085)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	83,118	(9,115)
Net change in short-term borrowings	(9,307)	38,756
Repayment of long-term borrowings	(2,971)	(12,109)
Cash dividends paid	(3,244)	(1,876)
Proceeds from reissuance of treasury shares	0	22
Repurchase of common shares	(168)	0
NET CASH FROM FINANCING ACTIVITIES	67,428	15,678
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,358	6,916
Beginning cash and cash equivalents	56,014	27,428
Ending cash and cash equivalents	\$ 67,372	\$ 34,344

Supplemental cash flow information:		
Interest paid	\$3,196	\$ 2,955
Income taxes paid	\$6,800	\$ 1,780
Supplemental noncash disclosures:		
Transfer of loans to other real estate	\$301	\$ 734
Security purchases not settled	\$1,176	\$ 0
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 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 National Community Bank (“FNCB”) a subsidiary of Tri-State 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 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 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 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(loss) consists of net income and other comprehensive income. Other comprehensive income(loss) 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 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 not yet determined the impact the adoption of ASU 2016-13 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 is effective for public companies for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the impact of ASU 2016-02 on its 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 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. The Company is currently evaluating the effects of ASU 2016-01 on its 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 Bowers with Insurance, the Bank's wholly-owned insurance agency subsidiary. The Bowers group is engaged 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 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 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

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.

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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		For Nine Months	
	Months Ended	Sept. 30,	Months Ended	Sept. 30,
	2016	2015	2016	2015

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Net interest income	\$17,193	\$15,621	\$50,829	\$46,065
Net income	\$5,376	\$4,523	\$15,214	\$10,060
Basic and diluted earnings per share	\$0.20	\$0.17	\$0.56	\$0.39

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Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at September 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
September 30, 2016				
U.S. Treasury and U.S. government sponsored entities	\$ 5,876	\$ 92	\$ 0	\$ 5,968
State and political subdivisions	138,143	3,211	(71)	141,283
Corporate bonds	1,344	19	(1)	1,362
Mortgage-backed securities - residential	176,919	3,038	(303)	179,654
Collateralized mortgage obligations - residential	22,377	78	(242)	22,213
Small Business Administration	17,999	46	(59)	17,986
Equity securities	127	138	(2)	263
Totals	\$ 362,785	\$ 6,622	\$ (678)	\$ 368,729

(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 \$2.3 million during the three and \$11.5 million during the nine month period ended September 30, 2016. Gross gains of \$31 thousand and \$224 thousand along with gross losses of \$0 and \$152 thousand were realized on these sales during the three and nine month periods ended September 30, 2016. Proceeds from the sale of portfolio securities were \$3.4 million during the three month period and \$58.2 million during the nine month period ended September 30, 2015. Gross gains were \$30 thousand and \$139 thousand along with gross losses of \$27 thousand and \$91 thousand during the same three and nine month periods ended September 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.

(In Thousands of Dollars)	September 30, 2016	
	Amortized Cost	Fair Value
Maturity		
Within one year	\$8,345	\$8,385
One to five years	59,688	61,045
Five to ten years	69,008	70,709
Beyond ten years	8,322	8,474
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	217,295	219,853
Total	\$362,658	\$368,466

The following table summarizes the investment securities with unrealized losses at September 30, 2016 and December 31, 2015, 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		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	September 30, 2016					
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$0	\$ 0	\$508	\$ 0	\$508	\$ 0
State and political subdivisions	4,802	(67)	297	(4)	5,099	(71)
Corporate bonds	103	(1)	0	0	103	(1)
Mortgage-backed securities - residential	5,827	(24)	26,202	(279)	32,029	(303)
Collateralized mortgage obligations - residential	1,657	(3)	11,758	(239)	13,415	(242)
Small Business Administration	3,914	(6)	8,550	(53)	12,464	(59)
Equity securities	138	(2)	0	0	138	(2)
Total	\$16,441	\$ (103)	\$47,315	\$ (575)	\$63,756	\$ (678)

(In Thousands of Dollars)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	December 31, 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 September 30, 2016, the Company's security portfolio consisted of 467 securities, 43 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.

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

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

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

Loans:

Loan balances were as follows:

	September 30, 2016	December 31, 2015
(In Thousands of Dollars)		
Originated loans:		
Commercial real estate		
Owner occupied	\$ 137,086	\$ 113,160
Non-owner occupied	151,208	139,502
Other	62,609	50,855
Commercial	193,447	157,447
Residential real estate		
1-4 family residential	213,620	179,657
Home equity lines of credit	56,053	41,171
Consumer		
Indirect	150,436	127,335
Direct	23,976	17,325
Other	7,021	4,508
Subtotal	\$995,456	\$830,960
	3,301	2,731

Net deferred loan costs		
Total originated loans	\$998,757	\$833,691
Acquired loans:		
Commercial real estate		
Owner occupied	\$122,989	\$131,673
Non-owner occupied	26,773	28,045
Other	14,887	23,536
Commercial	54,395	73,621
Residential real estate		
1-4 family residential	118,018	133,701
Home equity lines of credit	35,768	40,929
Consumer		
Direct	23,802	31,465
Other	231	204
Total acquired loans	\$396,863	\$463,174
Allowance for loan losses	(10,518)	(8,978)
Net loans	\$1,385,102	\$1,287,887

Purchased credit impaired loans

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

	September 30, 2016	December 31, 2015
(In Thousands of Dollars)		
Commercial real estate		
Owner occupied	\$ 899	\$ 986
Non-owner occupied	444	501
Commercial	1,233	1,576
Total outstanding balance	\$ 2,576	\$ 3,063
Carrying amount, net of allowance of \$0 in 2016 and \$31 in 2015	\$ 2,083	\$ 2,184

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

	Nine Months Ended September 30, 2016
(In Thousands of Dollars)	
Beginning balance	\$ 323
New loans purchased	0
Accretion of income	(56)
Ending balance	\$ 267

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 nine months ended September 30, 2016.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine month periods ended September 30, 2016 and 2015:

Three Months Ended September 30, 2016

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 3,210	\$ 1,634	\$ 2,081	\$ 2,444	\$ 351	\$9,720
Provision for loan losses	138	188	105	423	256	1,110
Loans charged off	(8)	0	(87)	(467)	0	(562)
Recoveries	1	0	48	201	0	250
Total ending allowance balance	\$ 3,341	\$ 1,822	\$ 2,147	\$ 2,601	\$ 607	\$10,518

Nine Months Ended September 30, 2016

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 3,127	\$ 1,373	\$ 1,845	\$ 2,160	\$ 473	\$8,978
Provision for loan losses	516	464	376	1,390	134	2,880
Loans charged off	(315)	(37)	(165)	(1,442)	0	(1,959)
Recoveries	13	22	91	493	0	619
Total ending allowance balance	\$ 3,341	\$ 1,822	\$ 2,147	\$ 2,601	\$ 607	\$10,518

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Three Months Ended September 30, 2015

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

Nine Months Ended September 30, 2015

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

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 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:

September 30, 2016

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real	Consumer	Unallocated	
			Estate			
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 61	\$ 5	\$ 74	\$ 4	\$ 0	\$ 144
Collectively evaluated for impairment	3,251	1,722	2,073	2,597	607	10,250
Acquired loans	29	95	0	0	0	124
Acquired with deteriorated credit quality	0	0	0	0	0	0

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Total ending allowance balance	\$ 3,341	\$ 1,822	\$ 2,147	\$2,601	\$ 607	\$10,518
Loans:						
Loans individually evaluated for impairment	\$ 3,795	\$ 613	\$ 3,415	\$103	\$ 0	\$7,926
Loans collectively evaluated for impairment	346,730	192,710	265,825	186,398	0	991,663
Acquired loans	162,923	53,268	153,730	24,027	0	393,948
Acquired with deteriorated credit quality	1,174	909	0	0	0	2,083
Total ending loans balance	\$ 514,622	\$ 247,500	\$ 422,970	\$210,528	\$ 0	\$1,395,620

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December 31, 2015

(In Thousands of Dollars)	Commercial		Residential			Unallocated Total
	Real Estate	Commercial	Real Estate	Consumer		
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 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 September 30, 2016 and December 31, 2015:

(In Thousands of Dollars)	Unpaid Principal		Allowance for Loan Losses
	Balance	Investment Recorded	Allocated
September 30, 2016			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 1,901	\$ 1,383	\$ 0
Non-owner occupied	334	333	0
Commercial	341	319	0
Residential real estate			
1-4 family residential	2,517	2,271	0
Home equity lines of credit	190	174	0
Consumer	197	96	0
Subtotal	5,480	4,576	0
With an allowance recorded:			
Commercial real estate			

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Owner occupied	948	946	57
Non-owner occupied	1,133	1,133	33
Commercial	296	294	100
Residential real estate			
1-4 family residential	890	885	73
Home equity lines of credit	85	85	1
Consumer	7	7	4
Subtotal	3,359	3,350	268
Total	\$ 8,839	\$ 7,926	\$ 268

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	Unpaid Principal	Recorded Investment	Allowance for Loan Losses Allocated
(In Thousands of Dollars)	Balance	Investment	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 nine month periods ended September 30, 2016 and 2015:

	Average Recorded Investment		Interest Income Recognized For Three Months Ended	
	For Three Months Ended September 30,		September 30,	
(In Thousands of Dollars)	2016	2015	2016	2015
With no related allowance recorded:				
Commercial real estate				

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Owner occupied	\$1,426	\$1,809	\$22	\$42
Non-owner occupied	333	374	0	10
Commercial	322	395	3	6
Residential real estate				
1-4 family residential	2,250	2,267	37	41
Home equity lines of credit	238	270	2	4
Consumer	78	63	4	4
Subtotal	4,647	5,178	68	107
With an allowance recorded:				
Commercial real estate				
Owner occupied	694	2,324	9	12
Non-owner occupied	1,138	1,503	15	20
Commercial	149	336	1	1
Residential real estate				
1-4 family residential	889	860	10	9
Home equity lines of credit	85	88	1	1
Consumer	5	0	0	0
Subtotal	2,960	5,111	36	43
Total	\$7,607	\$10,289	\$104	\$150

	Average Recorded Investment		Interest Income Recognized For Nine Months Ended September 30,	
	For Nine Months Ended September 30,		2016 2015	
(In Thousands of Dollars)	2016	2015	2016	2015
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$1,666	\$2,115	\$60	\$87
Non-owner occupied	334	380	4	23
Commercial	422	422	13	17
Residential real estate				
1-4 family residential	2,264	2,167	108	110
Home equity lines of credit	235	265	8	11
Consumer	93	78	10	11
Subtotal	5,014	5,427	203	259
With an allowance recorded:				
Commercial real estate				
Owner occupied	1,064	1,987	27	60
Non-owner occupied	1,336	1,520	53	60
Commercial	103	636	3	3
Residential real estate				
1-4 family residential	828	917	30	29
Home equity lines of credit	86	89	3	3
Consumer	2	0	0	0
Subtotal	3,419	5,149	116	155
Total	\$8,433	\$10,576	\$319	\$414

Cash basis interest recognized during the three and nine month periods ended September 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.

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The following table presents the recorded investment in nonaccrual and loans past due 90 days or more still on accrual by class of loans as of September 30, 2016 and December 31, 2015:

(In Thousands of Dollars)	September 30, 2016		December 31, 2015	
	Loans Past Due		Loans Past Due	
	90 Days or More		90 Days or More	
	Still Nonaccruing	Still Accruing	Still Nonaccruing	Still Accruing
Originated loans:				
Commercial real estate				
Owner occupied	\$ 1,050	\$ 0	\$ 3,313	\$ 0
Non-owner occupied	332	0	345	0
Commercial	525	0	541	73
Residential real estate				
1-4 family residential	1,964	305	2,406	336
Home equity lines of credit	168	24	127	112
Consumer				
Indirect	264	222	266	297
Direct	19	2	30	3
Other	0	20	0	24
Total originated loans	\$ 4,322	\$ 573	\$ 7,028	\$ 845
Acquired loans:				
Commercial real estate				
Owner occupied	\$ 490	\$ 0	\$ 126	\$ 18
Other	41	0	92	0
Commercial	1,193	0	1,068	0
Residential real estate				
1-4 family residential	400	706	458	467
Home equity lines of credit	137	32	125	7
Consumer				
Direct	80	29	161	50
Total acquired loans	\$ 2,341	\$ 767	\$ 2,030	\$ 542
Total loans	\$ 6,663	\$ 1,340	\$ 9,058	\$ 1,387

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The following tables present the aging of the recorded investment in past due loans as of September 30, 2016 and December 31, 2015 by class of loans:

	30-59	60-89				
	Days	Days	90 Days or More	Total		
	Past	Past	Past Due	Past	Loans Not	
(In Thousands of Dollars)	Due	Due	and Nonaccrual	Due	Past Due	Total
September 30, 2016						
Originated loans:						
Commercial real estate						
Owner occupied	\$0	\$0	\$ 1,050	\$1,050	\$135,704	\$136,754
Non-owner occupied	16	0	332	348	150,497	150,845
Other	0	0	0	0	62,373	62,373
Commercial	28	40	525	593	192,513	193,106
Residential real estate						
1-4 family residential	3,201	772	2,269	6,242	206,846	213,088
Home equity lines of credit	257	52	192	501	55,595	56,096
Consumer						
Indirect	2,097	577	486	3,160	152,186	155,346
Direct	295	104	21	420	23,707	24,127
Other	29	79	20	128	6,894	7,022
Total originated loans:	\$5,923	\$1,624	\$ 4,895	\$12,442	\$986,315	\$998,757
Acquired loans:						
Commercial real estate						
Owner occupied	\$483	\$121	\$ 490	\$1,094	\$121,895	\$122,989
Non-owner occupied	0	0	0	0	26,773	26,773
Other	0	0	41	41	14,846	14,887
Commercial	178	37	1,193	1,408	52,987	54,395
Residential real estate						
1-4 family residential	1,466	262	1,106	2,834	115,184	118,018
Home equity lines of credit	64	37	169	270	35,498	35,768
Consumer						
Direct	660	132	109	901	22,901	23,802
Other	0	0	0	0	231	231
Total acquired loans	\$2,851	\$589	\$ 3,108	\$6,548	\$390,315	\$396,863
Total loans	\$8,774	\$2,213	\$ 8,003	\$18,990	\$1,376,630	\$1,395,620

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	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Nonaccrual	Total Due Past Due	Loans Not Past Due	Total
(In Thousands of Dollars)						
December 31, 2015						
Originated loans:						
Commercial real estate						
Owner occupied	\$ 34	\$ 0	\$ 3,313	\$3,347	\$109,532	\$112,879
Non-owner occupied	0	0	345			