

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly period ended June 30, 2015

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

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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 July 31, 2015
Common Stock, No Par Value	25,671,567 shares

PART I - FINANCIAL INFORMATION

Item 1 Financial Statements (Unaudited)

Included in Part I of this report:

Farmers National Banc Corp. and Subsidiaries

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10-Q Certifications

Section 906 Certifications

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)	
	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 18,204	\$ 11,410
Federal funds sold and other	18,824	16,018
TOTAL CASH AND CASH EQUIVALENTS	37,028	27,428
Securities available for sale	386,319	389,829
Loans held for sale	399	511
Loans	1,134,838	663,852
Less allowance for loan losses	7,286	7,632
NET LOANS	1,127,552	656,220
Premises and equipment, net	23,459	17,049
Goodwill	32,272	5,591
Other intangibles	7,297	3,222
Bank owned life insurance	25,562	16,367
Other assets	32,515	20,750
TOTAL ASSETS	\$ 1,672,403	\$ 1,136,967
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 286,131	\$ 184,697
Interest-bearing	1,034,438	731,006
TOTAL DEPOSITS	1,320,569	915,703
Short-term borrowings	85,704	59,136
Long-term borrowings	69,887	28,381
Other liabilities	13,668	10,187
TOTAL LIABILITIES	1,489,828	1,013,407
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 35,000,000 shares; issued 26,294,014 in 2015 and 19,031,059 in 2014	165,185	106,021
Retained earnings	22,863	20,944
Accumulated other comprehensive income (loss)	(975)	1,093
Treasury stock, at cost; 622,447 shares	(4,498)	(4,498)
TOTAL STOCKHOLDERS' EQUITY	182,575	123,560
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,672,403	\$ 1,136,967

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands except Per Share Data)			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$8,634	\$7,589	\$16,318	\$15,073
Taxable securities	1,405	1,838	3,052	3,709
Tax exempt securities	662	639	1,277	1,295
Dividends	46	48	94	95
Federal funds sold and other interest income	6	4	11	9
TOTAL INTEREST AND DIVIDEND INCOME	10,753	10,118	20,752	20,181
INTEREST EXPENSE				
Deposits	879	1,022	1,766	2,083
Short-term borrowings	16	13	27	24
Long-term borrowings	109	131	218	266
TOTAL INTEREST EXPENSE	1,004	1,166	2,011	2,373
NET INTEREST INCOME	9,749	8,952	18,741	17,808
Provision for loan losses	850	300	1,300	630
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,899	8,652	17,441	17,178
NONINTEREST INCOME				
Service charges on deposit accounts	672	614	1,275	1,204
Bank owned life insurance income	165	120	304	227
Trust fees	1,509	1,552	3,156	3,049
Insurance agency commissions	118	75	264	170
Security gains	35	84	45	84
Retirement plan consulting fees	778	272	1,282	636
Investment commissions	256	243	554	437
Net gains on sale of loans	156	71	279	136
Other operating income	720	766	1,287	1,287
TOTAL NONINTEREST INCOME	4,409	3,797	8,446	7,230
NONINTEREST EXPENSES				
Salaries and employee benefits	5,663	5,096	11,205	10,118
Occupancy and equipment	1,201	1,097	2,312	2,250
State and local taxes	243	230	488	463
Professional fees	546	574	1,022	1,166
Merger related cost	1,912	0	2,157	0
Advertising	282	274	499	477
FDIC insurance	178	187	355	371
Intangible amortization	167	191	334	383
Core processing charges	382	389	763	750
Other operating expenses	1,513	1,340	2,703	2,541
TOTAL NONINTEREST EXPENSES	12,087	9,378	21,838	18,519
INCOME BEFORE INCOME TAXES	1,221	3,071	4,049	5,889

INCOME TAXES	409	720	1,026	1,347
NET INCOME	\$812	\$2,351	\$3,023	\$4,542
EARNINGS PER SHARE - basic and diluted	\$0.04	\$0.13	\$0.16	\$0.24

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
NET INCOME	\$812	\$2,351	\$3,023	\$4,542
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on available for sale securities	(5,447)	2,934	(3,136)	7,021
Reclassification adjustment for (gains) realized in income	(35)	(84)	(45)	(84)
Net unrealized holding gains (losses)	(5,482)	2,850	(3,181)	6,937
Income tax effect	1,919	(997)	1,113	(2,429)
Other comprehensive income (loss), net of tax	(3,563)	1,853	(2,068)	4,508
TOTAL COMPREHENSIVE INCOME (LOSS)	\$(2,751)	\$4,204	\$955	\$9,050

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars) For the Six Months Ended June 30,
COMMON STOCK	
	2015
Beginning balance	\$ 106,021
Issued 7,262,955 shares as part of the acquisition of NBOH	59,048
Stock compensation expense for 127,875 shares	116
Ending balance	165,185
RETAINED EARNINGS	
Beginning balance	20,944
Net income	3,023
Dividends declared at \$.03 per share	(1,104)
Ending balance	22,863
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	
Beginning balance	1,093
Other comprehensive income (loss)	(2,068)
Ending balance	(975)
TREASURY STOCK, AT COST	(4,498)
TOTAL STOCKHOLDERS' EQUITY	\$ 182,575

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)	
	Six Months Ended	
	June 30,	June 30,
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,023	\$4,542
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	1,300	630
Depreciation and amortization	938	1,003
Net amortization of securities	859	719
Security gains	(45)	(84)
Stock compensation expense	116	0
Loss on sale of other real estate owned	14	2
Earnings on bank owned life insurance	(304)	(227)
Origination of loans held for sale	(8,442)	(6,989)
Proceeds from loans held for sale	8,833	7,008
Net gains on sale of loans	(279)	(136)
Net change in other assets and liabilities	(2,780)	(512)
NET CASH FROM OPERATING ACTIVITIES	3,233	5,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	32,279	25,313
Proceeds from sales of securities available for sale	54,957	33,254
Purchases of securities available for sale	(35,745)	(38,564)
Loan originations and payments, net	(42,577)	(8,150)
Proceeds from sale of other real estate owned	199	35
Purchase of bank owned life insurance	(6,000)	0
Additions to premises and equipment	(687)	(787)
Net cash received in business combination	21,303	0
NET CASH FROM INVESTING ACTIVITIES	23,729	11,101
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(18,795)	(7,773)
Net change in short-term borrowings	13,037	(7,125)
Repayment of Federal Home Loan Bank borrowings and other debt	(55,500)	(507)
New Federal Home Loan Bank advance borrowings	45,000	0
Cash dividends paid	(1,104)	(1,127)
Proceeds from reissuance of treasury shares	0	32
NET CASH FROM FINANCING ACTIVITIES	(17,362)	(16,500)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,600	557
Beginning cash and cash equivalents	27,428	27,513
Ending cash and cash equivalents	\$37,028	\$28,070
Supplemental cash flow information:		
Interest paid	\$1,861	\$2,391
Income taxes paid	\$1,490	\$875

Supplemental noncash disclosures:

Transfer of loans to other real estate	\$453	\$218
Security purchases not settled	\$527	\$0
Issuance of stock for NBOH acquisition	\$59,048	\$0

See accompanying notes

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

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

Basis of Presentation:

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

Estimates:

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

Segments:

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

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income (loss). 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 the six month period ended June 30, 2015, there was no change in the funded status of the post-retirement health plan.

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Securities:

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

(In Thousands of Dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
U.S. Treasury and U.S. government sponsored entities	\$ 18,719	\$ 475	\$ (172)	\$ 19,022
State and political subdivisions	124,516	1,783	(2,042)	124,257
Corporate bonds	934	5	(5)	934
Mortgage-backed securities - residential	206,714	1,760	(2,215)	206,259
Collateralized mortgage obligations	16,067	0	(693)	15,374
Small Business Administration	20,935	1	(702)	20,234
Equity securities	123	118	(2)	239
Totals	\$ 388,008	\$ 4,142	\$ (5,831)	\$ 386,319

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

Proceeds from the sale of portfolio securities were \$19.4 million during the three month period and \$55.0 million during the six month period ended June 30, 2015. Gross gains of \$36 thousand and \$109 thousand and gross losses of \$1 thousand and \$64 thousand were realized on these sales during the three and six month period ended June 30, 2015. Gross gains from the sale of portfolio securities were \$333 thousand along with gross losses of \$249 thousand during the three and six month period ended June 30, 2014.

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

June 30, 2015

(In Thousands of Dollars)	Amortized Fair	
	Cost	Value
Maturity		
Within one year	\$18,524	\$18,704
One to five years	68,339	68,651
Five to ten years	48,694	48,425
Beyond ten years	8,612	8,433
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	243,716	241,867
Total	\$387,885	\$386,080

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

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(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
June 30, 2015						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	\$5,635	\$ (172)	\$200	\$ 0	\$5,835	\$ (172)
State and political subdivisions	48,992	(783)	14,587	(1,259)	63,579	(2,042)
Corporate bonds	0	0	478	(5)	478	(5)
Mortgage-backed securities - residential	73,736	(871)	43,634	(1,344)	117,370	(2,215)
Collateralized mortgage obligations	1,392	(1)	13,642	(692)	15,034	(693)
Small Business Administration	0	0	20,145	(702)	20,145	(702)
Equity securities	25	(2)	0	0	25	(2)
Total	\$129,780	\$ (1,829)	\$92,686	\$ (4,002)	\$222,466	\$ (5,831)

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

Other-Than-Temporary-Impairment

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

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

As of June 30, 2015, the Company's security portfolio consisted of 427 securities, 191 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 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:

	June 30,	December 31,
(In Thousands of Dollars)	2015	2014
Commercial real estate		
Owner occupied	\$ 193,080	\$ 74,829
Non-owner occupied	162,932	122,228
Other	71,016	26,137
Commercial	202,552	120,493
Residential real estate		
1-4 family residential	244,676	153,055
Home equity lines of credit	75,144	31,255
Consumer		
Indirect	121,474	120,931
Direct	58,197	9,071
Other	4,114	3,626
Subtotal	\$ 1,133,185	\$ 661,625
Net deferred loan costs	1,653	2,227
Allowance for loan losses	(7,286)	(7,632)
Net loans	\$ 1,127,552	\$ 656,220

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, 2015 and 2014:

Three Months Ended June 30, 2015

(In Thousands of Dollars)	Commercial		Residential		Unallocated	Total
	Real Estate	Commercial	Real Estate	Consumer		
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

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(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	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

Three Months Ended June 30, 2014

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 2,751	\$ 1,065	\$ 1,681	\$ 1,496	\$ 394	\$7,387
Provision for loan losses	(36)	25	305	144	(138)	300
Loans charged off	(33)	(19)	(210)	(388)	0	(650)
Recoveries	40	5	8	266	0	319
Total ending allowance balance	\$ 2,722	\$ 1,076	\$ 1,784	\$ 1,518	\$ 256	\$7,356

Six Months Ended June 30, 2014

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses						
Beginning balance	\$ 2,752	\$ 1,219	\$ 1,964	\$ 1,419	\$ 214	\$7,568
Provision for loan losses	(14)	(137)	77	662	42	630
Loans charged off	(90)	(19)	(280)	(1,097)	0	\$(1,486)
Recoveries	74	13	23	534	0	644
Total ending allowance balance	\$ 2,722	\$ 1,076	\$ 1,784	\$ 1,518	\$ 256	\$7,356

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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, 2015 and December 31, 2014. The recorded investment in loans includes the unpaid principal balance and unamortized loan origination fees and costs, but excludes accrued interest receivable, which is not considered to be material:

June 30, 2015

(In Thousands of Dollars)	Commercial		Residential			Total
	Real Estate	Commercial	Real Estate	Consumer	Unallocated	
Allowance for loan losses:						
Ending allowance balance attributable to						
loans:						
Individually evaluated for impairment	\$ 195	\$ 27	\$ 78	\$ 0	\$ 0	\$ 300
Collectively evaluated for impairment	2,438	1,253	1,470	1,825	0	6,986
Acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending allowance balance	\$ 2,633	\$ 1,280	\$ 1,548	\$ 1,825	\$ 0	\$ 7,286
Loans:						
Loans individually evaluated for						
impairment	\$ 6,228	\$ 741	\$ 3,515	\$ 61	\$ 0	\$ 10,545
Loans collectively evaluated for						
impairment	416,287	199,696	315,143	187,467	0	1,118,593
Loans acquired with deteriorated credit quality	3,793	1,571	284	52	0	5,700
Total ending loans balance	\$ 426,308	\$ 202,008	\$ 318,942	\$ 187,580	\$ 0	\$ 1,134,838

December 31, 2014

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

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loans:						
Individually evaluated for impairment	\$ 514	\$ 272	\$ 88	\$ 0	\$ 0	\$ 874
Collectively evaluated for impairment	2,162	1,148	1,601	1,663	184	6,758
Total ending allowance balance	\$ 2,676	\$ 1,420	\$ 1,689	\$ 1,663	\$ 184	\$ 7,632

Loans:						
Loans individually evaluated for impairment	\$ 7,139	\$ 1,940	\$ 3,425	\$ 93	\$ 0	\$ 12,597
Loans collectively evaluated for impairment	215,434	118,210	180,428	137,183	0	651,255
Total ending loans balance	\$ 222,573	\$ 120,150	\$ 183,853	\$ 137,276	\$ 0	\$ 663,852

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

	Unpaid Principal	Recorded Investment	Allowance for Loan Losses Allocated
(In Thousands of Dollars)	Balance	Investment	Allocated
June 30, 2015			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 2,137	\$ 2,003	\$ 0
Non-owner occupied	380	379	0
Commercial	425	404	0
Residential real estate			
1-4 family residential	2,481	2,226	0
Home equity lines of credit	289	275	0
Consumer	129	61	0
Subtotal	5,841	5,348	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	2,851	2,332	136
Non-owner occupied	1,515	1,514	59
Commercial	518	337	27
Residential real estate			
1-4 family residential	952	925	76
Home equity lines of credit	89	89	2
Subtotal	5,925	5,197	300
Total	\$ 11,766	\$ 10,545	\$ 300

	Unpaid Principal	Recorded Investment	Allowance for Loan Losses Allocated
(In Thousands of Dollars)	Balance	Investment	Allocated
December 31, 2014			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	\$ 2,448	\$ 2,318	\$ 0
Non-owner occupied	391	391	0
Commercial	531	511	0
Residential real estate			
1-4 family residential	2,421	2,156	0
Home equity lines of credit	476	251	0
Consumer	185	93	0

Subtotal	6,452	5,720	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	2,882	2,882	446
Non-owner occupied	1,548	1,548	68
Commercial	1,444	1,429	272
Residential real estate			
1-4 family residential	944	928	85
Home equity lines of credit	90	90	3
Subtotal	6,908	6,877	874
Total	\$ 13,360	\$ 12,597	\$ 874

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

(In Thousands of Dollars)	Average Recorded Investment		Interest Income Recognized For Three Months Ended June 30,	
	2015	2014	2015	2014
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$2,226	\$1,614	\$29	\$6
Non-owner occupied	380	405	7	9
Commercial	409	2,072	5	4
Residential real estate				
1-4 family residential	2,108	1,659	38	14
Home equity lines of credit	275	329	4	2
Consumer	81	178	3	0
Subtotal	5,479	6,257	86	35
With an allowance recorded:				
Commercial real estate				
Owner occupied	2,680	2,225	24	25
Non-owner occupied	1,520	1,580	20	20
Commercial	457	91	1	1
Residential real estate				
1-4 family residential	908	1,380	11	11
Home equity lines of credit	89	126	1	1
Subtotal	5,654	5,402	57	58
Total	\$11,133	\$11,659	\$143	\$93

(In Thousands of Dollars)	Average Recorded Investment		Interest Income Recognized For Six Months Ended June 30,	
	2015	2014	2015	2014
With no related allowance recorded:				
Commercial real estate				
Owner occupied	\$2,268	\$2,095	\$45	\$11

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Non-owner occupied	383	398	13	9
Commercial	436	1,502	11	9
Residential real estate				
1-4 family residential	2,116	1,495	69	28
Home equity lines of credit	263	222	7	4
Consumer	86	209	7	0
Subtotal	5,552	5,921	152	61
With an allowance recorded:				
Commercial real estate				
Owner occupied	1,818	1,939	48	50
Non-owner occupied	1,528	1,583	40	40
Commercial	787	741	2	2
Residential real estate				
1-4 family residential	945	1,385	20	22
Home equity lines of credit	89	136	2	2
Subtotal	5,167	5,784	112	116
Total	\$10,719	\$11,705	\$264	\$177

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

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

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

	June 30, 2015		December 31, 2014	
	Loans Past Due		Loans Past Due	
	90 Days or More		90 Days or More	
	Still		Still	
(In Thousands of Dollars)	Nonaccruing	Accruing	Nonaccruing	Accruing
Commercial real estate				
Owner occupied	\$2,832	\$ 0	\$3,315	\$ 44
Non-owner occupied	47	0	41	0
Other	175	0	0	0
Commercial	836	0	1,645	0
Residential real estate				
1-4 family residential	2,764	637	2,742	195
Home equity lines of credit	210	62	139	40
Consumer				
Indirect	78	150	90	193
Direct	80	106	36	0
Other	0	8	0	1
Total	\$7,022	\$ 963	\$8,008	\$ 473

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

	30-59		60-89		90 Days or More Past Due and Nonaccrual	Total Past Due	Loans Not Past Due	Total
	Days Past Due	Days Past Due	Days Past Due	Days Past Due				
(In Thousands of Dollars)	Due	Due	Due	Due	Due	Past Due	Total	
June 30, 2015								
Commercial real estate								

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Owner occupied	\$170	\$96	\$ 2,832	\$3,098	\$189,756	\$192,854
Non-owner occupied	23	0	47	70	162,533	162,603
Other	0	0	175	175	70,676	70,851
Commercial	550	291	836	1,677	200,331	202,008
Residential real estate						
1-4 family residential	2,784	540	3,401	6,725	237,073	243,798
Home equity lines of credit	187	63	272	522	74,622	75,144
Consumer						
Indirect	1,735	247	228	2,210	123,058	125,268
Direct	369	58	186	613	57,585	58,198
Other	30	3	8	41	4,073	4,114
Total	\$5,848	\$1,298	\$ 7,985	\$15,131	\$1,119,707	\$1,134,838

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	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
(In Thousands of Dollars)						
December 31, 2014						
Commercial real estate						
Owner occupied	\$0	\$0	\$ 3,359	\$3,359	\$71,272	\$74,631
Non-owner occupied	0	0	41	41	121,872	121,913
Other	0	0	0	0	26,029	26,029
Commercial	0	0	1,645	1,645	118,505	120,150
Residential real estate						
1-4 family residential	1,892	546	2,937	5,375	147,223	152,598
Home equity lines of credit	205	92	179	476	30,779	31,255
Consumer						
Indirect	2,136	406	283	2,825	121,754	124,579
Direct	108	18	36	162	8,909	9,071
Other	17	6	1	24	3,602	3,626
Total	\$4,358	\$1,068	\$ 8,481	\$13,907	\$649,945	\$663,852

Acquired Loans:

The following table presents financing receivables purchased during the three and six month periods ended June 30, 2015 by portfolio segment:

(In Thousands of Dollars)	Commercial		Residential		Total
	Real Estate	Commercial	Real Estate	Consumer	
June 30, 2015					
Purchases	\$ 178,680	\$ 69,544	\$ 132,585	\$ 48,432	\$429,241

Purchased Credit Impaired Loans:

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payment would not be collected. The carrying amount of those loans is as follows:

(In Thousands of Dollars)	June 30, 2015
Commercial real estate	

Owner occupied	\$1,267
Non-owner occupied	1,854
Other	672
Commercial	1,571
Residential real estate	
1-4 family residential	200
Home equity lines of credit	84
Consumer	
Direct	52
Outstanding Balance	\$5,700
Carrying Amount, net of allowance of \$0	\$5,700

Income recognized based on the accretable yield of these loans during the period ended June 30, 2015 was immaterial.

Purchased credit impaired loans purchased during the six months ended June 30, 2015, for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

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(In Thousands of Dollars)

	June 30, 2015
Contractually required payments receivable of loans purchased during the year:	
Commercial real estate	
Owner occupied	\$1,521
Non-owner occupied	2,148
Other	672
Commercial	1,975
Residential real estate	
1-4 family residential	206
Home equity lines of credit	88
Consumer	
Direct	54
	\$6,664
Cash flows expected to be collected at acquisition	\$6,337
Fair value of acquired loans at acquisition	\$5,700

Troubled Debt Restructurings:

Total troubled debt restructurings were \$8.5 million and \$8.1 million at June 30, 2015 and December 31, 2014, respectively. The Company has allocated \$215 thousand and \$242 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2015 and December 31, 2014. There were \$0 thousand and \$25 thousand in commitments to lend additional amounts to borrowers with loans that were classified as troubled debt restructurings at June, 30, 2015 and December 31, 2014.

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

Troubled debt restructuring modifications involved a reduction of the notes stated interest rate in the range of 0.87% and 2.75%. There were also extensions of the maturity dates on these and other troubled debt restructurings in the range of 9 months to 120 months.

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

Three Months Ended June 30, 2015	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded
----------------------------------	--	---

(In Thousands of Dollars)	Number of Loans	Investment	Investment
Troubled Debt Restructurings:			
Commercial real estate			
Owner occupied	2	\$ 801	\$ 801
Residential real estate			
1-4 family residential	2	193	193
Total	4	\$ 994	\$ 994

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Six Months Ended June 30, 2015 (In Thousands of Dollars)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial real estate			
Owner occupied	2	\$ 801	\$ 801
Commercial	1	8	8
Residential real estate			
1-4 family residential	5	547	547
Home equity lines of credit	1	50	50
Indirect	2	36	36
Total	11	\$ 1,442	\$ 1,442

Three Months Ended June 30, 2014 (In Thousands of Dollars)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-owner occupied	1	\$ 373	\$ 373
Residential real estate			
1-4 family residential	5	389	405
Home equity lines of credit	1	36	36
Total	7	\$ 798	\$ 814

Six Months Ended June 30, 2014 (In Thousands of Dollars)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial real estate			
Non-owner occupied	2	\$ 408	\$ 408
Residential real estate			
1-4 family residential	14	782	799
Home equity lines of credit	3	88	88
Total	19	\$ 1,278	\$ 1,295

There were \$87 thousand in charge offs and a \$62 thousand increase to the provision for loan losses during the three and six month periods ended June 30, 2015, as a result of troubled debt restructurings. There were \$32 thousand charge offs and an \$11 thousand increase to the provision for loan losses during the three and six month periods ended June 30, 2014.

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

There were five indirect loans and the residential real estate loans modified as troubled debt restructuring for which there were payments defaults within twelve months following the modification during the three and six month period ended June 30, 2014. Five of the eight loans were past due at June 30, 2014. There were two loans charged off during the three and six month period ended June 30, 2014. There was an \$11 thousand decrease to the provision to the allowance for loan losses associated with these loans for the three and six month periods ended June 30, 2014. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic

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

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

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

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

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

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

(In Thousands of Dollars)	Pass	Special Mention	Sub standard	Doubtful	Not Rated	Total
June 30, 2015						
Commercial real estate						
Owner occupied	\$185,630	\$1,007	\$6,217	\$ 0	\$ 0	\$192,854
Non-owner occupied	157,296	1,830	3,477	0	0	162,603
Other	69,871	498	482	0	0	70,851
Commercial	193,608	5,187	3,213	0	0	202,008
Total	\$606,405	\$ 8,522	\$13,389	\$ 0	\$ 0	\$628,316

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

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

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

(In Thousands of Dollars)	Residential Real Estate		Consumer		
	1-4 Family Residential	Home Equity Lines of Credit	Indirect	Direct	Other
June 30, 2015					
Performing	\$240,397	\$74,872	\$125,040	\$58,012	\$4,106
Nonperforming	3,401	272	228	186	8
Total	\$243,798	\$75,144	\$125,268	\$58,198	\$4,114

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

Interest-Rate Swaps:

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

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

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

	June 30, 2015	December 31, 2014
Notional amounts (In thousands)	\$ 34,396	\$ 31,459
Weighted average pay rate on interest-rate swaps	4.24 %	4.26 %
Weighted average receive rate on interest-rate swaps	2.63 %	2.67 %
Weighted average maturity (years)	5.9	5.9
Fair value of combined interest-rate swaps (In thousands)	\$ 625	\$ 638

The fair value of the yield maintenance provisions and interest-rate swaps is recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. Changes in the fair value of the yield maintenance provisions and interest-rate swaps are reported in earnings, as other noninterest income in the consolidated statements of income. For the three and six month periods ended June 30, 2015 and 2014 there were no net gains or losses recognized in earnings.

Earnings Per Share:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic EPS				
Net income (In thousands)	\$812	\$2,351	\$3,023	\$4,542
Weighted average shares outstanding	19,394,342	18,780,980	18,913,772	18,780,041
Basic earnings per share	\$0.04	\$0.13	\$0.16	\$0.24
Diluted EPS				
Net income (In thousands)	\$812	\$2,351	\$3,023	\$4,542
Weighted average shares out-standing for basic earnings per share	19,394,342	18,780,980	18,913,772	18,780,041
Dilutive effect of restricted stock awards	3,524	0	2,577	0
Weighted average shares for diluted earnings per share	19,397,866	18,780,980	18,916,349	18,780,041
Diluted earnings per share	\$0.04	\$0.13	\$0.16	\$0.24

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

Stock Based Compensation:

During 2012, the Company, with the approval of shareholders, created the 2012 Equity Incentive Plan (the "Plan"). The Plan permits the award of up to 500 thousand shares to the Company's directors and employees to promote the Company's long-term financial success by motivating performance through long-term incentive compensation and to better align the interests of its employees with those of its shareholders. There were 80,918 additional net shares awarded under the Plan during February 2015. Expense recognized for the Plan was \$82 thousand and \$140 thousand for the three month and six month periods ended June 30, 2015. As of June 30, 2015, there was \$721 thousand of total unrecognized compensation expense related to the nonvested shares granted under the Plan. The remaining cost is expected to be recognized over 2.7 years. There were 46,957 shares awarded and \$29 thousand and \$59 thousand of expense recognized for the Plan for the three and six month periods ended June 30, 2014.

The following is the activity under the Plan during the three months ended June 30, 2015:

Restricted Stock Units		Grant Date Fair
Units	Weighted Average	

		Value
Nonvested at January 1, 2015	46,957	\$ 7.39
Granted	85,918	7.88
Vested	0	0
Forfeited	(5,000)	7.88
Nonvested at June 30, 2015	127,875	\$ 7.70

Other Comprehensive Income (Loss):

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

(In Thousands of Dollars)	Three Months Ended June 30, 2015		
	Pre-tax	Tax	After-Tax
Unrealized holding gains (losses) on available-for-sale securities during the period	\$(5,447)	\$1,907	\$ (3,540)
Reclassification adjustment for (gains) losses included in net income (1)	(35)	12	(23)
Net unrealized gains (losses) on available-for-sale securities	\$(5,482)	\$1,919	\$ (3,563)

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(In Thousands of Dollars)	Six Months Ended June 30, 2015		
	Pre-tax	Tax	After-Tax
Unrealized holding gains (losses) on available-for-sale securities during the period	\$(3,136)	\$1,097	\$(2,039)
Reclassification adjustment for (gains) losses included in net income (1)	(45)	16	(29)
Net unrealized gains (losses) on available-for-sale securities	\$(3,181)	\$1,113	\$(2,068)

(In Thousands of Dollars)	Three Months Ended June 30, 2014		
	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	\$2,934	\$(1,026)	\$ 1,908
Reclassification adjustment for (gains) losses included in net income (1)	(84)	29	(55)
Net unrealized gains on available-for-sale securities	\$2,850	\$(997)	\$ 1,854

(In Thousands of Dollars)	Six Months Ended June 30, 2014		
	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	\$7,021	\$(2,458)	\$ 4,563
Reclassification adjustment for (gains) losses included in net income (1)	(84)	29	(55)
Net unrealized gains on available-for-sale securities	\$6,937	\$(2,429)	\$ 4,508

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

Regulatory Capital Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action by regulators that, if undertaken, could have a direct material effect on the financial statements. Management believes as of June 30, 2015, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered

deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At June 30, 2015 and December 31, 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		Requirement		To be Well	
	Amount	Ratio	For	Ratio	Capitalized	
			Capital		Under Prompt	
			Adequacy		Corrective	
			Purposes:		Action	
			Amount	Ratio	Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2015						
Common equity tier 1 capital ratio						
Consolidated	\$158,239	12.61 %	\$56,466	4.50 %	N/A	N/A
Bank	146,581	11.72 %	56,304	4.50 %	\$81,328	6.50 %
Total risk based capital ratio						
Consolidated	165,577	13.20 %	100,385	8.00 %	N/A	N/A
Bank	153,867	12.30 %	100,096	8.00 %	125,120	10.00 %
Tier 1 risk based capital ratio						
Consolidated	158,239	12.61 %	75,289	6.00 %	N/A	N/A
Bank	146,581	11.72 %	75,072	6.00 %	100,096	8.00 %
Tier 1 leverage ratio						
Consolidated	158,239	9.27 %	69,293	4.00 %	N/A	N/A
Bank	146,581	8.63 %	67,936	4.00 %	84,920	5.00 %
December 31, 2014						
Total Capital to risk weighted assets						
Consolidated	\$121,340	16.48 %	\$58,523	8.00 %	N/A	N/A
Bank	114,321	15.56 %	58,773	8.00 %	\$73,466	10.00 %
Tier 1 Capital to risk weighted assets						
Consolidated	113,654	15.43 %	29,262	4.00 %	N/A	N/A
Bank	106,689	14.52 %	29,386	4.00 %	44,079	6.00 %
Tier 1 Capital to average assets						
Consolidated	113,654	10.03 %	45,313	4.00 %	N/A	N/A
Bank	106,689	9.37 %	45,565	4.00 %	56,956	5.00 %

Fair Value:

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

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

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

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

(In Thousands of Dollars)	Fair Value Measurements at June 30, 2015 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for sale				
U.S. Treasury and U.S. government				
sponsored entities	\$19,022	\$ 0	\$ 19,022	\$ 0
State and political subdivisions	124,257	0	124,257	0
Corporate bonds	934	0	934	0
Mortgage-backed securities-residential	206,259	0	206,243	16
Collateralized mortgage obligations	15,374	0	15,374	0
Small Business Administration	20,234	0	20,234	0
Equity securities	239	239	0	0
Total investment securities	\$386,319	\$ 239	\$ 386,064	\$ 16
Yield maintenance provisions	\$625	\$ 0	\$ 625	\$ 0
Financial Liabilities				
Interest rate swaps	\$625	\$ 0	\$ 625	\$ 0

(In Thousands of Dollars)	Fair Value Measurements at December 31, 2014 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for sale				
U.S. Treasury and U.S. government				
sponsored entities	\$24,821	\$ 0	\$ 24,821	\$ 0
State and political subdivisions	91,881	0	91,881	0
Corporate bonds	931	0	931	0
Mortgage-backed securities-residential	224,362	0	224,352	10
Collateralized mortgage obligations	25,175	0	25,175	0
Small Business Administration	22,419	0	22,419	0
Equity securities	240	240	0	0
Total investment securities	\$389,829	\$ 240	\$ 389,579	\$ 10
Yield maintenance provisions	\$638	\$ 0	\$ 638	\$ 0
Financial Liabilities				
Interest rate swaps	\$638	\$ 0	\$ 638	\$ 0

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

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

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

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

(In Thousands of Dollars)	Fair Value Measurements at June 30, 2015 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Impaired loans				
Commercial real estate				
Owner occupied	\$ 683	\$ 0	\$ 0	\$ 683
Commercial	231	0	0	231
1-4 family residential	118	0	0	118

(In Thousands of Dollars)	Fair Value Measurements at December 31, 2014 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Impaired loans				
Commercial	\$ 807	\$ 0	\$ 0	\$ 807
1-4 family residential	63	0	0	63
Other real estate owned				
Commercial real estate	45	0	0	45

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$1.1 million with a valuation allowance of \$98 thousand at June 30, 2015, resulting in an additional provision for loan losses of \$209 thousand for the three and six month periods. At December 31, 2014, impaired loans had a principal balance of \$988 thousand, with a valuation allowance of \$117 thousand. Loans measured at fair value at June 30, 2014 resulted in an additional provision for loan losses of \$227 thousand during the three and six month periods ended June 30, 2014. Excluded from the fair value of impaired loans, at June 30, 2015 and December 31, 2014, discussed above are \$4.1 million and \$4.2 million of loans classified as troubled debt restructurings and measured using the present value of cash flows, which are not carried at fair value.

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

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at the periods ended June 30, 2015 and December 31, 2014:

June 30, 2015	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans				
				1.01%
Commercial real estate	\$ 683	Quoted price for loan relationship	Adjustment for differences between earning multiplier	(1.01%)
				-3.01%
Commercial	231	Quoted price for loan relationship	Adjustment for differences between earning multiplier	(-3.01%)
				-26.81%-20.94%
Residential	118	Sales comparison	Adjustment for differences between comparable sales	(-11.05%)

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

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

Fair Value Measurements at June 30, 2015 Using:					
(In Thousands of Dollars)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$37,028	\$18,204	\$18,824	\$0	\$37,028
Restricted stock	7,456	n/a	n/a	n/a	n/a
Loans held for sale	399	0	410	0	410
Loans, net	1,127,552	0	0	1,110,641	1,110,641
Accrued interest receivable	4,710	0	1,827	2,883	4,710
Financial liabilities					
Deposits	1,320,569	1,056,018	263,115	0	1,319,133
Short-term borrowings	85,704	0	85,704	0	85,704
Long-term borrowings	69,887	0	70,299	0	70,299
Accrued interest payable	553	29	524	0	553

Fair Value Measurements at December 31, 2014 Using:					
(In Thousands of Dollars)	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$27,428	\$11,410	\$16,018	\$0	\$27,428
Restricted stock	4,224	n/a	n/a	n/a	n/a
Loans held for sale	511	0	523	0	523
Loans, net	656,220	0	0	658,993	658,993
Accrued interest receivable	3,237	0	1,645	1,592	3,237
Financial liabilities					

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Deposits	915,703	708,752	206,708	0	915,460
Short-term borrowings	59,136	0	59,136	0	59,136
Long-term borrowings	28,381	0	28,837	0	28,837
Accrued interest payable	402	2	400	0	402

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

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

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

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

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

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

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

Short-term Borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

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

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

Segment Information:

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

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

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	Retirement				
	Trust	Bank	Consulting	Eliminations	Consolidated
(In Thousands of Dollars)	Segment	Segment	Segment	and Others	Totals
June 30, 2015					
Goodwill and other intangibles	\$ 5,126	\$ 31,090	\$ 3,353	\$ 0	\$ 39,569
Total assets	\$ 11,291	\$ 1,656,042	\$ 4,653	\$ 417	\$ 1,672,403

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

	Retirement				
	Trust	Bank	Consulting	Eliminations	Consolidated
(In Thousands of Dollars)	Segment	Segment	Segment	and Others	Totals
For Three Months Ended June 30, 2015					
Net interest income	\$ 15	\$ 9,738	\$ 0	\$ (4)	\$ 9,749
Provision for loan losses	0	850	0	0	850
Service fees, security gains and other noninterest income	1,531	2,166	779	(67)	4,409
Noninterest expense	1,241	7,657	427	2,182	11,507
Amortization and depreciation expense	86	404	90	0	580
Income (loss) before taxes	219	2,993	262	(2,253)	1,221
Income taxes	74	613	89	(367)	409
Net Income (Loss)	\$ 145	\$ 2,380	\$ 173	\$ (1,886)	\$ 812

	Retirement				
	Trust	Bank	Consulting	Eliminations	Consolidated
(In Thousands of Dollars)	Segment	Segment	Segment	and Others	Totals
For Six Months Ended June 30, 2015					
Net interest income	\$ 30	\$ 18,718	\$ 0	\$ (7)	\$ 18,741
Provision for loan losses	0	1,300	0	0	1,300
Service fees, security gains and other noninterest income	3,203	4,093	1,282	(132)	8,446
Noninterest expense	2,437	15,015	762	2,577	20,791
Amortization and depreciation expense	171	696	180	0	1,047
Income before taxes	625	5,800	340	(2,716)	4,049
Income taxes	212	1,222	116	(524)	1,026
Net Income	\$ 413	\$ 4,578	\$ 224	\$ (2,192)	\$ 3,023

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	Retirement				
	Trust	Bank	Consulting	Eliminations	Consolidated
	Segment	Segment	Segment	and Others	Totals
(In Thousands of Dollars)					
For Three Months Ended June 30, 2014					
Net interest income	\$ 14	\$ 8,941	\$ 0	\$ (3)	\$ 8,952
Provision for loan losses	0	300	0	0	300
Service fees, security gains and other					
noninterest income	1,574	1,756	555	(88)	3,797
Noninterest expense	1,193	7,471	407	307	9,378
Income before taxes	395	2,926	148	(398)	3,071
Income taxes	135	662	50	(127)	720
Net Income	\$ 260	\$ 2,264	\$ 98	\$ (271)	\$ 2,351

	Retirement				
	Trust	Bank	Consulting	Eliminations	Consolidated
	Segment	Segment	Segment	and Others	Totals
(In Thousands of Dollars)					
For Six Months Ended June 30, 2014					
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Net interest income	\$26	\$17,789	\$0	\$(7)	\$17,808
Provision for loan losses	0	630	0	0	630
Service fees, security gains and other					
noninterest income	3,091	3,294	998	(153)	7,230
Noninterest expense	2,380	14,734	824	581	18,519
Income before taxes	737	5,719	174	(741)	5,889
Income taxes	253	1,279	59	(244)	1,347
Net Income	\$484	\$4,440	\$115	\$(497)	\$4,542

The Bank segment includes Farmers National Insurance and Farmers of Canfield Investment Co.

Business Acquisitions:

On June 23, 2015, Tri-State 1st Banc, Inc. (“Tri-State”), the parent company of 1st National Community Bank (“FNCB”),

Farmers National Banc Corp. (the “Company”), the parent company of The Farmers National Bank of Canfield (“Farmers Bank”),

and FMNB Merger Subsidiary, LLC, a newly-formed wholly-owned subsidiary of the Company (“Merger Sub”), entered into an

Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which Tri-State will merge with and into Merger Sub (the

“Merger”). Promptly following consummation of the Merger, it is expected that Merger Sub will be dissolved and liquidated, and

FNCB will merge with and into Farmers Bank.

Pursuant to the terms of the Merger Agreement, common shareholders of Tri-State will be entitled to receive 1.747 common

shares, without par value, of the Company (the “Company Common Shares”), or \$14.20 in cash, for each common share, without par

value, of Tri-State (the “Tri-State Common Shares”), subject to proration provisions specified in the Merger Agreement that provide

for a targeted aggregate split of total consideration consisting of 75% Company Common Shares and 25% cash. Preferred

shareholders of Tri-State will be entitled to receive \$13.60 in cash for each share of Series A Preferred Stock, without par value, of

Tri-State.

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

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

(In Thousands of Dollars)

Consideration	
Cash	\$15,732
Stock	59,048
Fair value of total consideration transferred	\$74,780
Assets acquired and liabilities assumed	
Cash and due from financial institutions	\$37,035
Securities available for sale	51,340
Net loans	430,035
Premises and equipment	6,105
Bank owned life insurance	2,891
Core deposit intangible	4,409
Other assets	7,996
Total assets	539,811
Fair value of liabilities assumed	
Deposits	423,661
Short-term borrowings	13,531
Long-term borrowings	52,006
Accrued interest payable and other liabilities	2,514
Total liabilities	491,712
Net assets acquired	\$48,099
Goodwill created	26,681
Total net assets acquired	\$74,780

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

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

(In thousands of dollars except per share results)	For Three		For Six Months	
	Months Ended		Ended June 30,	
	June 30,	June 30,	June 30,	June 30,
	2015	2014	2015	2014
Net interest income	\$14,598	\$13,235	\$28,278	\$26,217
Net income	\$3,390	\$3,734	\$7,216	\$7,125
Basic and diluted earnings per share	\$0.13	\$0.15	\$0.28	\$0.28

On July 1, 2013, the Company completed the acquisition of all outstanding stock of the retirement planning consultancy National Associates, Inc. (“NAI”) of Rocky River, Ohio. The transaction involved both cash and stock totaling \$4.4 million, including up to \$1.5 million of future cash payments contingent upon NAI meeting income performance targets based on growth in EBITDA. The measurement period is defined, in essence, as “the twelve month period ending on the second anniversary of the closing date.” Based upon the closing date of July 1, 2013, the payment is due within five business days of final determination of the amount of the payment based upon EBITDA from August 1, 2014, to July 31, 2015. The estimated payment has been calculated and an additional \$849 thousand expense was recorded during the three month period ended June 30, 2015. The current liability on the books of the Company is \$1.0 million and is expected to be adequate to satisfy the contingent cash payment section of the agreement.

Goodwill and Intangible Assets:

Goodwill associated with the Company’s purchase of First National Bank of Orrville in June of 2015, National Associates, Inc. in July of 2013 and Farmers Trust Company in 2009 totaled \$32.2 million at June 30, 2015 and \$5.6 million at December 31, 2014. The First National Bank acquisition is more fully described in Business Acquisitions footnote. Impairment exists when a reporting unit’s carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test. Management performs

goodwill impairment testing on an annual basis in as of September 30. The fair value of the reporting unit is determined based on a discounted cash flow model.

Acquired Intangible Assets

Acquired intangible assets were as follows:

	For Three Months Ended June 30, 2015		For Six Months Ended June 30, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationship intangibles	\$5,970	\$ (3,279)	\$5,970	\$ (3,279)
Non-compete contracts	370	(310)	370	(310)
Trade name	190	(53)	190	(53)
Core deposit intangible	4,409	0	4,409	0
Total	\$10,939	\$ (3,642)	\$10,939	\$ (3,642)

	For Three Months Ended June 30, 2014		For Six Months Ended June 30, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationship intangibles	\$5,970	\$ (2,617)	\$5,970	\$ (2,617)
Non-compete contracts	370	(280)	370	(280)
Trade name	190	(28)	190	(28)
Total	\$6,530	\$ (2,925)	\$6,530	\$ (2,925)

Aggregate amortization expense was \$167 thousand and \$334 thousand for the three and six month periods ended June 30, 2015. Amortization expense was \$191 thousand and \$383 thousand for the three and six months ended June 30, 2014.

Estimated amortization expense for each of the next five periods and thereafter:

2015 (Six months)	610
2016	1,108
2017	1,022
2018	938
2019	862
Thereafter	2,757
TOTAL	\$7,297

Repurchase agreements:

The following table provides a disaggregation of the obligation by the class of collateral pledged for short-term financing obtained through the sales of repurchase agreements:

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(In Thousands of Dollars)	June 30, 2015
Overnight and continuous repurchase agreements	
U.S. Treasury and U.S. government sponsored entities	\$6,246
State and political subdivisions	9,892
Mortgage-backed securities - residential	55,771
Collateralized mortgage obligations	5,245
Total borrowings	\$77,154

Management believes the risks associated with the agreements are minimal and in the case of collateral decline the company has additional investment securities available to adequately pledge as guarantees for the repurchase agreements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Discussions in this report that are not statements of historical fact (including statements that include terms such as "will," "may," "should," "believe," "expect," "anticipate," "estimate," "project," "intend," and "plan") are forward-looking statements and involve risks and uncertainties. Any forward-looking statement is not a guarantee of future performance and actual future results could differ materially from those contained in forward-looking information. Factors that could cause or contribute to such differences include, without limitation, risks and uncertainties detailed from time to time in the Company's filings with the Securities and Exchange Commission (the "Commission"), including without limitation, the risk factors disclosed in Item 1A, "Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Many of these factors are beyond the Company's ability to control or predict, and readers are cautioned not to put undue reliance on those forward-looking statements. The following list, which is not intended to be an all-encompassing list of risks and uncertainties affecting the Company, summarizes several factors that could cause the Company's actual results to differ materially from those anticipated or expected in these forward-looking statements:

- general economic conditions in market areas where we conduct business, which could materially impact credit quality trends;
- business conditions in the banking industry;
- the regulatory environment;
- fluctuations in interest rates;
- demand for loans in the market areas where we conduct business;
- rapidly changing technology and evolving banking industry standards;
- competitive factors, including increased competition with regional and national financial institutions;
- new service and product offerings by competitors and price pressures; and other like items.

Other factors not currently anticipated may also materially and adversely affect the Company's results of operations, cash flows and financial position. There can be no assurance that future results will meet expectations. While the Company believes that the forward-looking statements in this report are reasonable, the reader should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. The

Company does not undertake, and expressly disclaims, any obligation to update or alter any statements whether as a result of new information, future events or otherwise, except as may be required by applicable law.

Overview

Net income for the three months ended June 30, 2015 was \$812 thousand, or \$0.04 per diluted share, which compares to \$2.4 million, or \$0.13 per diluted share for the second quarter ended June 30, 2014. Merger expenses of \$1.9 million related to acquisition activities accounted for most of the decline in net income for the three month period. In comparing the second quarter's results to the most recent previous quarter, the net income excluding acquisition activities increased \$140 thousand or 6%.

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Net income for the six months ended June 30, 2015 was \$3.0 million, compared to \$4.5 million for the same six month period in 2014. On a per share basis, net income for the six months ended June 30, 2015 was \$0.16, a decrease of 33.3% compared to the same six month period in 2014. The decrease in income and earnings per share for the six month period is mainly attributable to the merger related expenses.

Total gross loans were \$1.1 billion at June 30, 2015, compared to \$637.8 million at June 30, 2014. This represents an increase of 76.8%. The increase in loans is a direct result of the additional loans acquired in the NBOH acquisition and a focus on loan growth utilizing a talented lending and credit team while adhering to a sound underwriting discipline. Most of the increase in loans has occurred in the commercial real estate, commercial and industrial and residential real estate loan portfolios. Average loan balances for the six month period ended June 30, 2015 comprised 66% of the Bank's average earning assets, an improvement compared to 58.5% during the same period in 2014. Non-performing assets to total assets remain at low levels compared to industry averages, currently at 0.70%. Early stage delinquencies also continue to remain at low levels, at \$7.2 million or 0.63% of total loans at June 30, 2015. The allowance to non-performing loans ratio increased from 90.4% at June 30, 2014 to 91.3% at June 30, 2015.

The net interest margin for the six month period ended June 30, 2015 was 3.65%, a 10 basis points increase from the same period ended June 30, 2014. In comparing the first six months of 2015 to the same period in 2014, asset yields increased 2 basis points, while the cost of interest-bearing liabilities decreased 8 basis points.

Deposits increased \$404.9 million, from \$915.7 million at December 31, 2014 to \$1.3 billion at June 30, 2015, as a result of the NBOH merger. At June 30, 2015, core deposits – savings and money market accounts, time deposits less than \$250 thousand, demand deposits and interest bearing demand deposits – represented approximately 96.7% of total deposits.

Stockholders' equity totaled \$182.6 million, at June 30, 2015, an increase of \$59.0 million, or 47.7%, compared to \$123.6 million at December 31, 2014. Contributing to the increase were the shares issued during the completion of the NBOH merger. Shareholders received a total of \$0.12 per share in dividends over the past four quarters. Book value per share increased from \$6.71 per share at December 31, 2014 to \$7.11 per share at June 30, 2015. The Company's tangible book value per share decreased from \$6.23 per share at December 31, 2014 to \$5.57 per share at June 30, 2015. The increases in book value and the reduction of tangible book value per share were the result of the acquisition.

On June 19, 2015, Farmers announced that it had completed the merger of NBOH, the holding company for the First National Bank of Orrville. Immediately following the merger, First National Bank was merged into Farmers National Bank of Canfield (Farmers National Bank). This transaction resulted in the addition of \$545 million in assets and 14 branch locations in Wayne, Medina and Stark counties in Ohio.

On June 24, 2015, Farmers entered into a merger agreement with Tri-State that calls for Tri-State to merge into Farmers and for Tri-State's wholly-owned subsidiary, First National Community Bank, which operates 5 banking locations in Columbiana County in Ohio and Western Pennsylvania to merge into Farmers National Bank. This transaction is expected to close on during the fourth quarter of 2015, subject to the satisfaction of customary closing conditions, including regulatory approvals and the approval of the shareholders of Tri-State. At March 31, 2015, Tri-State had approximately \$139 million in assets, which included \$54.3 million of demand deposits with an overall cost of deposits of 0.19%. Under the terms of the agreement, shareholders of Tri-State will elect to receive either 1.747 shares of Farmers common stock or \$14.20 per share in cash, subject to an overall limitation of 75% of the shares being exchanged for Farmers shares and 25% for cash.

Results of Operations

The following is a comparison of selected financial ratios and other results at or for the three and six month periods ended June 30, 2015 and 2014:

(In Thousands, except Per Share Data)	At or for the Three Months		At or for the Six Months		
	Ended June 30,		Ended June 30,		
	2015	2014	2015	2014	
Total Assets	\$1,672,403	\$1,133,286	\$1,672,403	\$1,133,286	
Net Income	\$812	\$2,351	\$3,023	\$4,542	
Basic and Diluted Earnings Per Share	\$0.04	\$0.13	\$0.16	\$0.24	
Return on Average Assets (Annualized)	0.27	% 0.83	% 0.52	% 0.80	%
Return on Average Equity (Annualized)	2.74	% 7.85	% 4.53	% 7.74	%
Efficiency Ratio (tax equivalent basis)	81.03	% 69.68	% 76.08	% 69.77	%
Equity to Asset Ratio	10.92	% 10.68	% 10.92	% 10.68	%
Tangible Common Equity Ratio *	8.76	% 9.89	% 8.76	% 9.89	%
Dividends to Net Income	67.98	% 23.95	% 36.55	% 24.81	%
Net Loans to Assets	67.42	% 55.63	% 67.42	% 55.63	%
Loans to Deposits	85.94	% 70.28	% 85.94	% 70.28	%

*The tangible common equity ratio is calculated by dividing total common stockholders' equity by total assets, after reducing both amounts by intangible assets. The tangible common equity ratio is not required by U.S. GAAP or by applicable bank regulatory requirements, but is a metric used by management to evaluate the adequacy of the Company's capital levels. Since there is no authoritative requirement to calculate the tangible common equity ratio, the Company's tangible common equity ratio is not necessarily comparable to similar capital measures disclosed or used by other companies in the financial services industry. Tangible common equity and tangible assets are non-U.S. GAAP financial measures and should be considered in addition to, not as a substitute for or superior to, financial measures determined in accordance with U.S. GAAP. With respect to the calculation of the actual unaudited tangible common equity ratio as of June 30, 2015 and 2014, reconciliations of tangible common equity to U.S. GAAP total common stockholders' equity and tangible assets to U.S. GAAP total assets are set forth below:

(In Thousands of Dollars)	June 30, 2015	December 31, 2014	June 30, 2014
Reconciliation of Common Stockholders' Equity to Tangible Common Equity			
Stockholders' Equity	\$182,575	\$123,560	\$121,020
Less Goodwill and Other Intangibles	39,569	8,813	9,960
Tangible Common Equity	\$143,006	\$114,747	\$111,060

(In Thousands of Dollars)	June 30, 2015	December 31, 2014	June 30, 2014
Reconciliation of Total Assets to Tangible Assets			
Total Assets	\$1,672,403	\$1,136,967	\$1,133,286

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Less Goodwill and Other Intangibles	39,569	8,813	9,960
Tangible Assets	\$1,632,834	\$1,128,154	\$1,123,326

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Net Interest Income. The following schedule details the various components of net interest income for the periods indicated. All asset yields are calculated on a tax-equivalent basis where applicable. Security yields are based on amortized cost.

Average Balance Sheets and Related Yields and Rates

(Dollar Amounts in Thousands)

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	AVERAGE		RATE	AVERAGE		RATE
	BALANCE	INTEREST (1)		BALANCE	INTEREST (1)	
EARNING ASSETS						
Loans (3) (5) (6)	\$733,249	\$ 8,780	4.75 %	\$625,870	\$ 7,709	4.94 %
Taxable securities (4)	273,799	1,405	2.04	339,801	1,838	2.17
Tax-exempt securities (4) (6)	84,970	1,014	4.73	83,026	971	4.69
Equity securities (2)	4,771	46	3.66	4,282	48	4.50
Federal funds sold and other	14,310	6	0.17	11,214	4	0.14
TOTAL EARNING ASSETS	1,111,099	11,251	4.02	1,064,193	10,570	3.98
NONEARNING ASSETS						
Cash and due from banks	23,516			19,722		
Premises and equipment	8,052			17,504		
Allowance for loan losses	(7,620)			(7,397)		
Unrealized gains (losses) on securities	2,543			(2,556)		
Other assets (3)	61,883			50,737		
TOTAL ASSETS	\$1,199,473			\$1,142,203		
INTEREST-BEARING LIABILITIES						
Time deposits	\$203,193	\$ 736	1.44 %	\$220,221	\$ 899	1.64 %
Savings deposits	420,315	117	0.11	412,107	114	0.11
Demand deposits	152,372	26	0.07	127,901	9	0.03
Short term borrowings	70,260	16	0.09	77,262	13	0.07
Long term borrowings	35,114	109	1.22	19,398	131	2.71
TOTAL INTEREST-BEARING LIABILITIES	881,254	1,004	0.45	856,889	1,166	0.55
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS' EQUITY						
Demand deposits	190,669			156,378		
Other liabilities	10,108			8,736		
Stockholders' equity	117,442			120,200		
TOTAL LIABILITIES AND STOCKHOLDERS'						
EQUITY	\$1,199,473			\$1,142,203		

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Net interest income and interest rate spread	\$ 10,247	3.57 %	\$ 9,404	3.43 %
Net interest margin		3.66 %		3.54 %

(1) Rates are calculated on an annualized basis.

(2) Equity securities include restricted stock, which is included in other assets on the consolidated balance sheets.

(3) Non-accrual loans and overdraft deposits are included in other assets.

(4) Includes unamortized discounts and premiums. Average balance and yield are computed using the average historical amortized cost.

(5) Interest on loans includes fee income of \$703 thousand and \$597 thousand for 2015 and 2014, respectively, and is reduced by amortization of \$558 thousand and \$552 thousand for 2015 and 2014, respectively.

(6) For 2015, adjustments of \$146 thousand and \$352 thousand, respectively, are made to tax equate income on tax exempt loans and tax exempt securities. For 2014, adjustments of \$120 thousand and \$342 thousand, respectively, are made to tax equate income on tax exempt loans and tax exempt securities. These adjustments are based on a marginal federal income tax rate of 35%, less disallowances.

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Average Balance Sheets and Related Yields and Rates

(Dollar Amounts in Thousands)

	Six Months Ended			Six Months Ended		
	June 30, 2015			June 30, 2014		
	AVERAGE		RATE	AVERAGE		RATE
	BALANCE	INTEREST	(1)	BALANCE	INTEREST	(1)
EARNING ASSETS						
Loans (3) (5) (6)	\$ 698,777	\$ 16,599	4.79 %	\$ 621,597	\$ 15,313	4.97 %
Taxable securities (4)	285,209	3,052	2.16	341,234	3,709	2.19
Tax-exempt securities (4) (6)	85,154	1,953	4.62	84,174	1,969	4.72
Equity securities (2) (6)	4,528	94	4.10	4,282	95	4.47
Federal funds sold and other	15,319	11	0.14	10,957	9	0.17
TOTAL EARNING ASSETS	1,088,987	21,709	4.02	1,062,244	21,095	4.00
NONEARNING ASSETS						
Cash and due from banks	20,134			19,790		
Premises and equipment	17,881			17,503		
Allowance for loan losses	(7,609)			(7,382)		
Unrealized gains (losses) on securities	2,624			(4,114)		
Other assets (3)	58,957			50,728		
TOTAL ASSETS	\$ 1,180,974			\$ 1,138,769		
INTEREST-BEARING LIABILITIES						
Time deposits	\$ 202,993	\$ 1,504	1.49 %	\$ 222,960	\$ 1,826	1.65 %
Savings deposits	409,534	227	0.11	410,291	239	0.12
Demand deposits	141,544	35	0.05	127,326	18	0.03
Short term borrowings	63,314	28	0.09	73,048	24	0.07
Long term borrowings	35,876	217	1.23	23,093	266	2.32
TOTAL INTEREST-BEARING LIABILITIES	853,261	2,011	0.48	856,718	2,373	0.56
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS' EQUITY						
Demand deposits	182,852			155,482		
Other liabilities	10,193			8,205		
Stockholders' equity	134,668			118,364		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,180,974			\$ 1,138,769		
Net interest income and interest rate spread		\$ 19,698	3.54 %	\$ 18,722		3.44 %
Net interest margin			3.65 %			3.55 %

- (1) Rates are calculated on an annualized basis.
- (2) Equity securities include restricted stock, which is included in other assets on the consolidated balance sheets.
- (3) Non-accrual loans and overdraft deposits are included in other assets.
- (4) Includes unamortized discounts and premiums. Average balance and yield are computed using the average historical amortized cost.
- (5) Interest on loans includes fee income of \$1.2 million for 2015 and 2014 and is reduced by amortization of \$1.1 million for 2015 and 2014.
- (6) For 2015, adjustments of \$281 thousand and \$676 thousand, respectively, are made to tax equate income on tax exempt loans and tax exempt securities. For 2014, adjustments of \$240 thousand and \$674 thousand, respectively, are made to tax equate income on tax exempt loans and tax exempt securities. These adjustments are based on a marginal federal income tax rate of 35%, less disallowances.

Net Interest Income. Net interest income was \$9.7 million for the second quarter of 2015 compared to \$9.0 million for the same period in 2014. The net interest margin to average earning assets on a fully taxable equivalent basis increased 12 basis points to 3.66% for the three months ended June 30, 2015, compared to 3.54% for the same three month period in the prior year. In comparing the quarters ended June 30, 2015 and 2014, yields on earning assets increased 4 basis points, while the cost of interest bearing liabilities decreased 10 basis points. The increase in net interest margin was mainly a result of time deposits with higher interest rates maturing and then being moved to products with lower interest rates or leaving the bank, and from loans comprising a higher share of earning assets in 2015.

Net interest income increased to \$18.7 million for the six month period ended June 30 2015, compared to \$17.8 million in the same period in 2014. The annualized net interest margin to average earning assets on a fully taxable equivalent basis was 3.65% for the six months ended June 30, 2015, compared to 3.55% for the same period in the prior year. The increase is primarily a result of factors similar to the three months results previously stated.

Noninterest Income. Noninterest income increased 16.1% to \$4.4 million for the quarter ended June 30, 2015 compared to \$3.8 million in 2014. Retirement plan consulting fees increased \$506 thousand or 186% in the current year's quarter compared to the same quarter in 2014. Gains on the sale of mortgage loans increased \$85 thousand or 120% and deposit account income also increased \$58 thousand or 9.5% in comparing the same two quarters.

Noninterest income for the six months ended June 30, 2015 was \$8.4 million, compared to \$7.2 million during the same period in 2014. The increase in noninterest income is due to retirement plan consulting fees increasing to \$1.3 million compared to \$636 thousand during the same period in 2014. Trust fees also increased \$107 thousand during the six month period ended June 30, 2015 compared to the same period in 2014.

Noninterest Expense. Noninterest expense totaled \$12.1 million for the three month period ended June 30, 2015, which was \$2.7 million more than the \$9.2 million during the same quarter in 2014. The increase is primarily the result of \$1.1 million in merger related costs associated with the 2015 acquisition of NBOH and the pending acquisition of Tri-State. There was an additional \$849 thousand expense recorded related to the contingency consideration associated with the 2013 acquisition of NAI, Inc. during the quarter ended June 30, 2015. There was also an increase of \$567 thousand in salaries and employee benefits during the current quarter compared to the same quarter in 2014.

Noninterest expenses for the six months ended June 30, 2015 was \$21.8 million, compared to \$18.5 million for the same period in 2014, representing an increase of \$3.3 million, or 17.9%. The increase is the result of a \$2.2 million increase in merger costs and \$1.1 million increase in salaries and employee benefits as mention above.

The Company's tax equivalent efficiency ratio for the three month period ended June 30, 2015 was 76.1% compared to 69.8% for the same period in 2014. The negative change in the efficiency ratio was the result of the \$1.3 million in merger costs. The tax equivalent efficiency ratio excluding the merger costs was 68.4% during the six month period ended June 30, 2015. Management has continued to focus on increasing the levels of noninterest income and reducing the level of noninterest expenses.

Income Taxes. Income tax expense totaled \$409 thousand for the quarter ended June 30, 2015 and \$720 thousand for the quarter ended June 30, 2014. As discussed in previous paragraphs the increased merger costs negatively impacted net income therefore reducing overall tax expense for the period. The effective tax rate for the three month period ended June 30, 2015 was 33.5% which compared to the effective tax rate of 23.4% for the same period in 2014. The increase in the current period's rate is a result of the \$848 thousand contingent cash consideration payment expense not being tax deductible.

Income tax expense was \$1.0 million for the first six months of 2015 and \$1.3 million for the first six months of 2014. The effective tax rate for the six month period of 2015 was 25.3%, compared to 22.9% for the same period in 2014. The effective tax rate increase over the same period in 2014 was due to the non-deductibility as mentioned in the quarter discussion above.

Other Comprehensive Income. For the quarter ended June 30, 2015, the change in net unrealized gains or losses on securities, net of reclassifications, resulted in an unrealized loss, net of tax, of \$3.6 million, compared to an unrealized gain of \$1.9 million for the same period in 2014. The decrease in fair value for the three month period ended June 30, 2015 compared to 2014 is the result of market interest rate fluctuations.

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For the six months of 2015, the change in net unrealized gains on securities, net of reclassifications, resulted in an unrealized loss, net of tax, of \$2.1 million, compared to an unrealized gain of \$4.5 million for the same period in 2014. The decrease in fair value for the three and six month periods ended June 30, 2015 is the result of the market's reaction to projected long term interest rates.

Financial Condition

Cash and Cash Equivalents. Cash and cash equivalents increased \$9.6 million during the first six months of 2015. The newly acquired bank entity contributed \$37.0 million in cash and cash equivalents to the combined company. Cash was used to help fund the cash portion of the acquisition and to support the lending activity of the newly combined company. The Company expects these levels to remain steady over the next few months.

Securities. Securities available-for-sale decreased by \$3.5 million since December 31, 2014. With the additional \$51.3 million in securities brought by the purchase of NBOH the Company used proceeds from both maturing securities and sales of securities to help fund the purchase of the newly acquired entity, to fund increases in the loan portfolio and to purchase additional bank owned life insurance during the first six months of 2015.

Loans. Gross loans increased \$471.0 million since December 31, 2014. Most of the increase in loans is a result of the \$430.5 million in additional loans acquired in the NBOH transaction and \$10.9 million organic loan growth utilizing a talented lending and credit team while adhering to a sound underwriting discipline. Most of the increase in loans has occurred in the commercial real estate, commercial and industrial and residential real estate loan portfolios. On a fully tax equivalent basis, loans contributed \$16.6 million of total interest income during the six month period ended June 30, 2015 compared to \$15.3 million for the same period in 2014.

Allowance for Loan Losses. The following table indicates key asset quality ratios that management evaluates on an ongoing basis. The unpaid principal balance of non-performing loans and non-performing assets was used in the calculation of amounts and ratios on the table below for quarters prior to the current quarter ended June 30, 2015. For the current quarter, recorded investment amounts were used in the calculations.

Asset Quality History

(In Thousands of Dollars)

	6/30/2015		3/31/2015		12/31/2014		9/30/2014		6/30/2014
Nonperforming loans	\$ 7,984		\$ 7,939		\$ 8,481		\$ 7,218		\$ 8,140
Nonperforming loans as a % of total loans	0.70	%	1.18	%	1.28	%	1.12	%	1.28
Loans delinquent 30-89 days	\$ 7,146		\$ 4,344		\$ 5,426		\$ 4,938		\$ 3,460
Loans delinquent 30-89 days as a % of total loans	0.63	%	0.64	%	0.82	%	0.76	%	0.54
Allowance for loan losses	\$ 7,286		\$ 7,723		\$ 7,632		\$ 7,333		\$ 7,356
Allowance for loan losses as a % of loans	0.64	%	1.15	%	1.15	%	1.13	%	1.15
Allowance for loan losses as a % of non-acquired loans	1.03	%	1.15	%	1.15	%	1.13	%	1.15
Allowance for loan losses as a % of nonperforming loans	91.26	%	97.28	%	89.99	%	101.58	%	90.37
Annualized net charge-offs to average net loans outstanding	0.71	%	0.22	%	0.33	%	0.28	%	0.21

Non-performing assets	\$ 9,112		\$ 8,083		\$ 8,629		\$ 7,600		\$ 8,492
Non-performing assets as a % of total assets	0.54	%	0.71	%	0.76	%	0.67	%	0.75
Net charge-offs for the quarter	\$ 1,292		\$ 359		\$ 526		\$ 448		\$ 331

For the three months ended June 30, 2015, management recorded an \$850 thousand provision for loan losses, compared to providing \$300 thousand over the same three month period in the prior year. The larger provision recorded for the three month period ended June 30, 2015 was primarily a result of the loan portfolio's growth and higher than normal charge-offs due to one commercial loan relationship. The increase in the allowance for loan losses was consistent with the percentage of growth in total loans for the three month period ended June 30, 2015 as compared to the same period in 2014. The ratio of allowance for loan losses to gross loans decreased to .64% compared to 1.15% at December 31, 2014. The decrease is the result of the additional loan portfolio acquired at fair market value without an allowance for loan losses. This is the main factor causing the allowance for loan losses ratios to be lower than in the prior periods. The allowance for loan losses to gross loans excluding the acquired loans was 1.03% at the same period ended June 30, 2015. Non-performing loans as a percentage of total loans decreased from 1.3% at December 31, 2014 to .70% at June 30, 2015. With the reduction in non-performing loans the Company was able to increase the percentage of the allowance for loan losses to non-performing loans from 90.0% at December 31, 2014 to 91.3% at June 30, 2015.

Based on the evaluation of the adequacy of the allowance for loan losses, management believes that the allowance for loan losses at June 30, 2015 is adequate and reflects probable incurred losses in the portfolio. The provision for loan losses is based on

management's judgment after taking into consideration all factors connected with the collectability of the existing loan portfolio. Management evaluates the loan portfolio in light of economic conditions, changes in the nature and volume of the loan portfolio, industry standards and other relevant factors. Specific factors considered by management in determining the amounts charged to operating expenses include previous credit loss experience, the status of past due interest and principal payments, the quality of financial information supplied by loan customers and the general condition of the industries in the community to which loans have been made.

Deposits. Total deposits increased \$404.9 million from \$915.7 million at December 31, 2014 to \$1.3 billion at June 30, 2015. The increase in deposits is the result of the \$423.7 million in deposits acquired with the First National Bank of Orrville transaction. The company experienced runoff in the deposit portfolios during the first six months of 2015 as customers seek out other investment options in search of higher returns. All deposit types have shown increases as a result of the acquisition as non-interest bearing deposits increased \$101.4 million during the first six month period of 2015. The Company's strategy is to maintain deposit balances while pricing deposit rates to remain competitive within the market. At June 30, 2015, core deposits, which include, savings and money market accounts, time deposits less than \$100 thousand, demand deposits and interest bearing demand deposits represented approximately 96.7% of total deposits.

Borrowings. Total borrowings increased \$68.1 million, or 77.8%, since December 31, 2014. The increase in borrowings is the result of the Company assuming \$52.0 million in Federal Home Loan Bank advances and \$13.5 million in securities sold under repurchase agreements from the acquisition during the six month period ended June 30, 2015.

Capital Resources. Total stockholders' equity increased to \$182.6 million, or 10.9% of total assets, at June 30, 2015, an increase of \$59.0 million, compared to \$123.6 million at December 31, 2014. The increase is due to the \$59.0 million of stock that was issued as part of the purchase price of NBOH. Shareholders have received \$0.03 per share in cash dividends each quarter over the last four quarters. Book value per share increased from \$6.71 per share at December 31, 2014 to \$7.11 per share at June 30, 2015. The Company's tangible book value per share decreased from \$6.23 per share at December 31, 2014 to \$5.57 per share at June 30, 2015. The increase in book value was due to the issuance of shares in the NBOH acquisition. The tangible book value per share decline can be attributed to the creation of the intangible asset of goodwill.

The capital management function is a regular process that consists of providing capital for both the current financial position and the anticipated future growth of the Company. New minimum capital requirements associated with the Basel Committee on capital and liquidity regulation (Basel III) and are being phased in beginning on January 1, 2015 through January 1, 2019. At June 30, 2015 the Company is required to maintain 4.5% common equity tier 1 to risk weighted assets. As of June 30, 2015 the Company's common equity tier 1 to risk weighted assets was 12.61%, total risk-based capital ratio stood at 13.20%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 12.61% and 9.27%, respectively. Management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject, as of June 30, 2015.

Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with U.S. GAAP. These policies are presented in Note 1 of the consolidated audited financial statements in the Company's Annual Report to Shareholders included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has identified two accounting policies that are critical accounting policies and an understanding of these policies is necessary to understand the Company's financial statements. These policies relate to determining the adequacy of the allowance for loan losses and other-than-temporary impairment of securities. Additional information regarding these policies is included in the notes to the aforementioned 2014 consolidated financial statements, Note 1 (Summary of

Significant Accounting Policies), Note 2 (Securities), Note 3 (Loans), and the sections captioned “Investment Securities” and “Loan Portfolio.”

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. U.S. GAAP establishes standards for the amortization of acquired intangible assets and the impairment assessment of goodwill. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. The Company’s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of the Company’s trust and NAI subsidiaries to provide quality, cost-effective services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods. U.S. GAAP requires an annual evaluation of goodwill for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The fair value of the goodwill, which resides on the books of the Trust and NAI, is estimated by reviewing the past and projected operating results for the subsidiaries and comparable industry information.

Liquidity

The Company maintains, in the opinion of management, liquidity sufficient to satisfy depositors' requirements and meet the credit needs of customers. The Company depends on its ability to maintain its market share of deposits as well as acquiring new funds. The Company's ability to attract deposits and borrow funds depends in large measure on its profitability, capitalization and overall financial condition. The Company's objective in liquidity management is to maintain the ability to meet loan commitments, purchase securities or to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. Principal sources of liquidity for the Company include assets considered relatively liquid, such as federal funds sold, cash and due from banks, as well as cash flows from maturities and repayments of loans, and securities.

Along with its liquid assets, the Bank has additional sources of liquidity available which help to ensure that adequate funds are available as needed. These other sources include, but are not limited to, loan repayments, the ability to obtain deposits through the adjustment of interest rates and the purchasing of federal funds and borrowings on approved lines of credit at major domestic banks. At June 30, 2015, these lines of credit totaled \$39.0 million of which the Bank had borrowed \$8.2 million against these lines. In addition, the Company has two revolving lines of credit with correspondent banks totaling \$6.5 million. The outstanding balance at June 30, 2015 was \$350 thousand. Management feels that its liquidity position is adequate and continues to monitor the position on a monthly basis. As of June 30, 2015, the Bank had outstanding balances with the Federal Home Loan Bank of Cincinnati ("FHLB") of \$69.9 million with additional borrowing capacity of approximately \$45.6 million with the FHLB as well as access to the Federal Reserve Discount Window, which provides an additional source of funds. The Bank views its membership in the FHLB as a solid source of liquidity.

The primary investing activities of the Company are originating loans and purchasing securities. During the first six months of 2015, net cash provided by investing activities amounted to \$25.0 million, compared to \$11.1 million provided in the same period in 2014. Net cash received from the NBOH acquisition provided \$22.6 million dollars. Proceeds from maturities and repayments of securities available for sale were up to \$32.3 million from \$25.3 million during the first six months of 2014. Proceeds from sales of securities available for sale amounted to \$55.0 million provided during the first six months of 2015 compared to \$33.3 million provided during the same period in 2014. Cash from the security pay-downs and sales was used to help fund a portion of the acquisition costs associated with the NBOH transaction. Loan originations used \$42.6 million during the first six months of 2015 compared to the \$8.2 million used during the same period in 2014. The cash used by lending activities during this period can be attributed to the positive activity in the consumer real estate and commercial loan portfolios. The Company also used \$6.0 million to purchase additional bank owned life insurance and had a net cash inflow of \$7.0 million from NBOH during the first six months of 2015 compared to none in the first six months of 2014.

The primary financing activities of the Company are obtaining deposits, repurchase agreements and other borrowings. Net cash used in financing activities amounted to \$17.4 million for the period ended June 30, 2015, compared to \$16.5 million used in financing activities for the same period in 2014. There were large swings in activity during the six month period ended June 30, 2015 compared to the same period last year. Deposits and FHLB advance repayments used \$74.3 million. Short-term and long-term borrowings provided cash to offset the repayment activity.

Off-Balance Sheet Arrangements

In the normal course of business, to meet the financial needs of our customers, we are a party to financial instruments with off-balance sheet risk. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the Consolidated Balance Sheets. The Bank's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Because some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The same credit policies are used in making commitments as are used for on-balance sheet

instruments. Collateral is required in instances where deemed necessary. Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed for, home equity, commercial and consumer lines of credit. Financial standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily used to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Total unused commitments were \$240.0 million at June 30, 2015 and \$150.0 at December 31, 2014 as the Bank assumed commitments made by First National Bank of Orrville. Additionally, the Company has committed up to a \$3 million subscription in a Small Business Investment Company fund (SBIC). At June 30, 2015 the Company had invested \$1.9 million in this fund.

Recent Market and Regulatory Developments

In July 2013, the Federal banking regulators approved a final rule to implement the revised capital adequacy standards of the Basel Committee on Banking Supervision, commonly called Basel III, and to address relevant provisions of the Dodd-Frank Act. The final

rule strengthens the definition of regulatory capital, increases risk-based capital requirements, makes selected changes to the calculation of risk-weighted assets, and adjusts the prompt corrective action thresholds. Community banking organizations, such as the Company and the Bank, become subject to the new rule on January 1, 2015 and certain provisions of the new rule will be phased in over the period of 2015 through 2019.

The final rule:

- Permits banking organizations that had less than \$15 billion in total consolidated assets as of December 31, 2009 to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock that were issued and included in Tier 1 capital prior to May 19, 2010, subject to a limit of 25% of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to Tier 1 capital.
- Establishes new qualifying criteria for regulatory capital, including new limitations on the inclusion of deferred tax assets and mortgage servicing rights.
- Requires a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%.
- Increases the minimum Tier 1 capital to risk-weighted assets ratio requirement from 4% to 6%.
- Retains the minimum total capital to risk-weighted assets ratio requirement of 8%.
- Establishes a minimum leverage ratio requirement of 4%.
- Retains the existing regulatory capital framework for 1-4 family residential mortgage exposures.
- Permits banking organizations that are not subject to the advanced approaches rule, such as the Company and the Bank, to retain, through a one-time election, the existing treatment for most accumulated other comprehensive income, such that unrealized gains and losses on securities available for sale will not affect regulatory capital amounts and ratios.
- Implements a new capital conservation buffer requirement for a banking organization to maintain a common equity capital ratio more than 2.5% above the minimum common equity Tier 1 capital, Tier 1 capital and total risk-based capital ratios in order to avoid limitations on capital distributions, including dividend payments, and certain discretionary bonus payments. The capital conservation buffer requirement will be phased in beginning on January 1, 2016 at 0.625% and will be fully phased in at 2.50% by January 1, 2019. A banking organization with a buffer of less than the required amount would be subject to increasingly stringent limitations on such distributions and payments as the buffer approaches zero. The new rule also generally prohibits a banking organization from making such distributions or payments during any quarter if its eligible retained income is negative and its capital conservation buffer ratio was 2.5% or less at the end of the previous quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income.
- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term commitments and securitization exposures.
 - Expands the recognition of collateral and guarantors in determining risk-weighted assets.
- Removes references to credit ratings consistent with the Dodd Frank Act and establishes due diligence requirements for securitization exposures.

The Company's management is currently evaluating the provisions of the final rule and their expected impact on the Company.

Various legislation affecting financial institutions and the financial industry will likely continue to be introduced in Congress, and such legislation may further change banking statutes and the operating environment of the Company in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will

be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Company or any of its subsidiaries. With the enactment of the Dodd-Frank Act, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable at this time.

Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies and are subject to change at any time, particularly in the current economic and regulatory environment. Any such change in statutes, regulations or regulatory policies applicable to the Company could have a material effect on the business of the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's ability to maximize net income is dependent, in part, on management's ability to plan and control net interest income through management of the pricing and mix of assets and liabilities. Because a large portion of assets and liabilities of the Company are monetary in nature, changes in interest rates and monetary or fiscal policy affect its financial condition and can have significant impact on the net income of the Company. Additionally, the Company's balance sheet is currently liability sensitive and in the low interest rate environment that exists today, the Company's net interest margin should maintain current levels throughout the near future.

The Company considers the primary market exposure to be interest rate risk. Simulation analysis is used to monitor the Company's exposure to changes in interest rates, and the effect of the change to net interest income. The following table shows the effect on net interest income and the net present value of equity in the event of a sudden and sustained 300 basis point increase or 100 basis decrease in market interest rates:

Changes In Interest Rate (basis points)	June 30,		December 31,		ALCO	
	2015	2014	Result	Result	Guidelines	
Net Interest Income Change						
+300	5.1	%	2.2	%	15	%
+200	4.0	%	1.9	%	10	%
+100	2.2	%	1.2	%	5	%
-100	-4.2	%	-4.0	%	5	%
Net Present Value Of Equity Change						
+300	-2.9	%	-4.6	%	20	%
+200	-1.1	%	-1.3	%	15	%
+100	0.6	%	0.8	%	10	%
-100	-5.4	%	-6.7	%	10	%

The results of the simulation indicate that in an environment where interest rates rise 100, 200 and 300 basis points or fall 100 basis points over a 12 month period, using June 30, 2015 amounts as a base case, and considering the increase in deposit liabilities, and the volatile financial markets. The results of this analysis comply with internal limits established by the Company. A report on interest rate risk is presented to the Board of Directors and the Asset/Liability Committee on a quarterly basis. The Company has no market risk sensitive instruments held for trading purposes, nor does it hold derivative financial instruments, and does not plan to purchase these instruments in the near future.

Item 4. Controls and Procedures

Based on their evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective. There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the opinion of management there are no outstanding legal actions that will have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of equity securities by the issuer.

On September 28, 2012, the Company announced that its Board of Directors approved a stock repurchase program that authorizes the repurchase of up to 920,000 shares of its outstanding common stock in the open market or in privately negotiated transactions. There were no shares purchased during the six month period ended June 30, 2015.

During the acquisition of NBOH there were 7,262,955 shares issued as part of the transaction that was completed on June 18, 2015.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are filed or incorporated by reference as part of this report:

- 2.1 Agreement and Plan of Merger by and between National Bancshares Corporation and Farmers National Banc Corp., dated as of January 27, 2015 (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on February 2, 2015)
- 2.2 Agreement and Plan of Merger by and among Tri-State 1st Banc, Inc., Farmers National Banc Corp. and FMNB Merger Subsidiary, LLC, dated as of June 23, 2015 (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on June 29, 2015).
- 3.1 Articles of Incorporation of Farmers National Banc Corp., as amended (incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on October 3, 2001 (File No. 333-70806)).
- 3.2 Amendment to Articles of Incorporation of Farmers National Banc Corp., as amended (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 1, 2013).
- 3.3 Amended Code of Regulations of Farmers National Banc Corp. (incorporated by reference from Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011 filed with the Commission on August 9, 2011).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Kevin J. Helmick, President and Chief Executive Officer of the Company (filed herewith).
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Carl D. Culp, Executive Vice President, Chief Financial Officer and Treasurer of the Company (filed herewith).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 of Kevin J. Helmick, President and Chief Executive Officer of the Company (filed herewith).
- 32.2 Certification pursuant to 18 U.S.C. Section 1350 of Carl D. Culp, Executive Vice President, Chief Financial Officer and Treasurer of the Company (filed herewith).
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text.

* Constitutes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARMERS NATIONAL BANC CORP.

Dated: August 10, 2015

/s/ Kevin J. Helmick
Kevin J. Helmick
President and Chief Executive Officer
Dated: August 10, 2015

/s/ Carl D. Culp
Carl D. Culp
Executive Vice President and Treasurer