

FARMERS NATIONAL BANC CORP /OH/

Form 10-Q

August 09, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the Quarterly period ended June 30, 2011
Commission file number 0-12055
FARMERS NATIONAL BANC CORP.
(Exact name of registrant as specified in its charter)

OHIO

34-1371693

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No)

20 South Broad Street

Canfield, OH

44406

(Address of principal executive offices)

(Zip Code)

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class

Outstanding at July 31, 2011

Common Stock, No Par Value

18,700,453 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

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- Exhibit 31.a
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Exhibit 32.a

Exhibit 32.b

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

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

	(In Thousands of Dollars)	
	June 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 28,170	\$ 30,772
Federal funds sold	16,969	6,533
TOTAL CASH AND CASH EQUIVALENTS	45,139	37,305
Securities available for sale	358,335	314,347
Loans	568,704	590,367
Less allowance for loan losses	10,876	9,307
NET LOANS	557,828	581,060
Premises and equipment, net	14,599	13,944
Bank owned life insurance	14,699	11,529
Goodwill	3,709	3,709
Other intangibles	2,956	3,211
Other assets	16,956	17,646
TOTAL ASSETS	\$ 1,014,221	\$ 982,751
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	\$ 81,550	\$ 77,728
Interest-bearing	688,513	683,322
TOTAL DEPOSITS	770,063	761,050
Short-term borrowings	108,720	105,634
Long-term borrowings	23,572	24,733
Other liabilities	3,290	3,286
TOTAL LIABILITIES	905,645	894,703

Commitments and contingent liabilities

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Stockholders Equity:

Common Stock	Authorized 25,000,000 shares; issued 18,700,466 in 2011 and 15,699,184 in 2010	104,012	96,142
Retained (deficit) earnings		(2,155)	14,502
Accumulated other comprehensive income		6,719	2,907
Treasury stock, at cost; 13 shares in 2011 and 2,053,149 in 2010		0	(25,503)
TOTAL STOCKHOLDERS EQUITY		108,576	88,048
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		\$ 1,014,221	\$ 982,751

See accompanying notes

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

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2011	2010	2011	2010
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 8,354	\$ 9,192	\$ 16,820	\$ 18,424
Taxable securities	2,048	2,261	3,917	4,502
Tax exempt securities	729	584	1,468	1,175
Dividends	53	47	99	100
Federal funds sold	10	15	19	24
TOTAL INTEREST AND DIVIDEND INCOME	11,194	12,099	22,323	24,225
INTEREST EXPENSE				
Deposits	1,684	2,420	3,382	5,165
Short-term borrowings	104	234	201	519
Long-term borrowings	249	269	500	551
TOTAL INTEREST EXPENSE	2,037	2,923	4,083	6,235
NET INTEREST INCOME	9,157	9,176	18,240	17,990
Provision for loan losses	1,075	1,600	2,950	4,378
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,082	7,576	15,290	13,612
NONINTEREST INCOME				
Service charges on deposit accounts	500	497	973	975
Bank owned life insurance income, including death benefits	119	131	278	257
Trust fees	1,365	1,197	2,703	2,429
Security gains (losses)	0	(3)	0	(3)
Insurance agency commissions	28	110	92	172
Investment commissions	263	129	454	240
Other operating income	419	660	811	987
TOTAL NONINTEREST INCOME	2,694	2,721	5,311	5,057
NONINTEREST EXPENSES				
Salaries and employee benefits	4,483	4,099	8,671	8,076
Occupancy and equipment	922	892	1,838	1,817

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State and local taxes	238	224	485	456
Professional fees	267	381	503	690
Advertising	211	147	356	277
FDIC insurance	244	317	592	620
Intangible amortization	112	145	255	290
Core processing charges	245	237	490	476
Other operating expenses	1,370	1,203	2,716	2,475
TOTAL NONINTEREST EXPENSES	8,092	7,645	15,906	15,177
INCOME BEFORE INCOME TAXES	2,684	2,652	4,695	3,492
INCOME TAXES	567	618	888	611
NET INCOME	\$ 2,117	\$ 2,034	\$ 3,807	\$ 2,881
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Change in net unrealized gains on securities, net of reclassifications	3,769	2,988	3,812	4,055
COMPREHENSIVE INCOME	\$ 5,886	\$ 5,022	\$ 7,619	\$ 6,936
NET INCOME PER SHARE basic and diluted	\$ 0.11	\$ 0.15	\$ 0.21	\$ 0.21
DIVIDENDS PER SHARE	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06

See accompanying notes

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

	(In Thousands of Dollars)	
	Six Months Ended	
	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,807	\$ 2,881
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	2,950	4,378
Depreciation and amortization	829	861
Net amortization of securities	2,540	504
Security (gains) losses	0	3
Loss on sale of other real estate owned	29	48
Income on bank owned life insurance	(278)	(257)
Net change in other assets and liabilities	(1,139)	863
NET CASH FROM OPERATING ACTIVITIES	8,738	9,281
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	19,251	27,489
Proceeds from sales of securities available for sale	3,361	1,896
Purchases of securities available for sale	(63,277)	(39,014)
Loan originations and payments, net	19,845	(7,560)
Proceeds from sale of other real estate owned	141	354
Purchase of bank owned life insurance	(3,000)	0
Proceeds from BOLI death benefit	108	0
Additions to premises and equipment	(1,179)	(632)
NET CASH FROM INVESTING ACTIVITIES	(24,750)	(17,467)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	9,013	(16,873)
Net change in short-term borrowings	3,086	11,999
Repayment of Federal Home Loan Bank borrowings and other debt	(1,161)	(1,889)
Cash dividends paid	(1,119)	(813)
Proceeds from dividend reinvestment	255	240
Net proceeds from issuance of common shares	13,772	0
NET CASH FROM FINANCING ACTIVITIES	23,846	(7,336)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,834	(15,522)
Beginning cash and cash equivalents	37,305	51,160
Ending cash and cash equivalents	\$ 45,139	\$ 35,638

Supplemental cash flow information:

Interest paid	\$	4,108	\$	6,435
Income taxes paid	\$	2,085	\$	50

Supplemental noncash disclosures:

Transfer of loans to other real estate	\$	437	\$	173
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See accompanying notes

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

Farmers National Banc Corp. (the Company) is a multi-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company provides full banking services through its nationally chartered subsidiary, The Farmers National Bank of Canfield (the Bank). The Company provides trust services through its subsidiary, Farmers Trust Company (the Trust), and insurance services through the Bank's subsidiary, Farmers National Insurance. The consolidated financial statements include the accounts of the Company, the Bank, the Trust and Farmers National Insurance. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2010 Annual Report to Shareholders included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.

Estimates:

To prepare financial statements in conformity with U.S. GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, deferred tax assets, carrying amount of goodwill and fair values of financial instruments are particularly subject to change.

Segments:

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

Shareholders Equity:

The Company successfully completed a rights and public offering of 5,000,000 common shares in January 2011. As part of this rights offering the Company issued 2,946,864 shares of authorized but unissued shares and reissued 2,053,136 shares of treasury stock. Total proceeds from the offering net of offering costs of \$1.2 million were \$13.8 million. Since the Company's cost basis of the treasury shares was greater than the price paid for stock issued in the rights offering, the difference of \$19.3 million was recorded as a reduction to retained earnings. Other changes to retained earnings for the six months ended June 30, 2011 were net income of \$3.8 million and partially offset by dividends paid to shareholders of \$1.1 million. In addition to the rights and public offering, common stock increased by \$255 thousand during the six months ended June 30, 2011 due to the issuance of 54,418 shares of stock through the Company's dividend reinvestment program. Accumulated other comprehensive income increased \$3.8 million from December 31, 2010 to June 30, 2011 due to the after tax impact of increases in fair value of securities available for sale during that period.

Table of Contents**Securities:**

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at June 30, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

(In Thousands of Dollars)	Amortized	Gross	Gross	Fair
June 30, 2011	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. Treasury and U.S. government sponsored entities	\$ 87,200	\$ 3,750	\$ (15)	\$ 90,935
State and political subdivisions	80,045	2,456	(691)	81,810
Mortgage-backed securities residential	157,505	4,620	(395)	161,730
Collateralized mortgage obligations	22,850	238	0	23,088
Equity securities	149	373	(16)	506
Other securities	250	16	0	266
Totals	\$ 347,999	\$ 11,453	\$ (1,117)	\$ 358,335

(In Thousands of Dollars)

December 31, 2010

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

There was one security sale during the three and six month periods ended June 30, 2011. Proceeds from the sale were \$3.4 million with no gain or loss recognized. Proceeds from sales of securities were \$1.9 million for the three and six month periods ended June 30, 2010. Gross losses of \$3 thousand were realized on these sales, during the second quarter of 2010.

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

(In Thousands of Dollars)	June 30, 2011	
Maturity	Amortized	Fair
	Cost	Value
Within one year	\$ 4,300	\$ 4,385
One to five years	98,306	102,048
Five to ten years	40,161	40,699
Beyond ten years	24,728	25,879

Mortgage-backed and CMO securities	180,355	184,818
Total	\$ 347,850	\$ 357,829

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The following table summarizes the investment securities with unrealized losses at June 30, 2011 and December 31, 2010, aggregated by major security type and length of time in a continuous unrealized loss position:

(In Thousands of Dollars)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2011						
Available-for-sale						
U.S. Treasury and U.S.						
government-sponsored entities	\$ 4,976	\$ (10)	\$ 288	\$ (5)	\$ 5,264	\$ (15)
State and political subdivisions	22,234	(580)	851	(111)	23,085	(691)
Mortgage-backed securities						
residential	43,337	(395)	25	(0)	43,362	(395)
Equity securities						