FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
May 11, 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 March 31, 2015

Commission file number 001-35296

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

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

(330) 533-3341

(Registrant’s telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

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

Class	Outstanding at April 30, 2015
Common Stock, No Par Value	18,408,612 shares

CONSOLIDATED BALANCE SHEETS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars)	
	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 11,800	$ 11,410
Federal funds sold and other	15,129	16,018
TOTAL CASH AND CASH EQUIVALENTS	26,929	27,428
Securities available for sale	369,919	389,829
Loans held for sale	146	511
Loans	673,784	663,852
Less allowance for loan losses	7,723	7,632
NET LOANS	666,061	656,220
Premises and equipment, net	16,963	17,049
Goodwill	5,591	5,591
Other intangibles	3,055	3,222
Bank owned life insurance	22,506	16,367
Other assets	22,481	20,750
TOTAL ASSETS	$ 1,133,651	$ 1,136,967
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 174,112	$ 184,697
Interest-bearing	735,296	731,006
TOTAL DEPOSITS	909,408	915,703
Short-term borrowings	62,218	59,136
Long-term borrowings	18,120	28,381
Other liabilities	17,134	10,187
TOTAL LIABILITIES	1,006,880	1,013,407
Commitments and contingent liabilities		
Stockholders' Equity:		
Common Stock - Authorized 35,000,000 shares; issued 19,031,059	106,079	106,021
Retained earnings	22,603	20,944
Accumulated other comprehensive income	2,587	1,093
Treasury stock, at cost; 622,447 shares	(4,498)	(4,498)
TOTAL STOCKHOLDERS' EQUITY	126,771	123,560
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,133,651	$ 1,136,967

See accompanying notes

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CONSOLIDATED STATEMENTS OF INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands except Per Share Data) For the Three Months Ended March 31, 2015	March 31, 2014
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$7,684	$7,484
Taxable securities	1,647	1,871
Tax exempt securities	615	656
Dividends	48	47
Federal funds sold and other interest income	5	5
TOTAL INTEREST AND DIVIDEND INCOME	9,999	10,063
INTEREST EXPENSE		
Deposits	887	1,061
Short-term borrowings	11	11
Long-term borrowings	109	135
TOTAL INTEREST EXPENSE	1,007	1,207
NET INTEREST INCOME	8,992	8,856
Provision for loan losses	450	330
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,542	8,526
NONINTEREST INCOME		
Service charges on deposit accounts	603	590
Bank owned life insurance income	139	107
Trust fees	1,647	1,497
Insurance agency commissions	146	95
Security gains	10	0
Retirement plan consulting fees	504	364
Investment commissions	298	194
Net gains on sale of loans	123	65
Other operating income	567	521
TOTAL NONINTEREST INCOME	4,037	3,433
NONINTEREST EXPENSES		
Salaries and employee benefits	5,542	5,022
Occupancy and equipment	1,111	1,153
State and local taxes	245	233
Professional fees	476	592
Merger related cost	245	0
Advertising	217	203
FDIC insurance	177	184
Intangible amortization	167	192
Core processing charges	381	361

Other operating expenses	1,190	1,201
TOTAL NONINTEREST EXPENSES	9,751	9,141
INCOME BEFORE INCOME TAXES	2,828	2,818
INCOME TAXES	617	627
NET INCOME	$2,211	$2,191
EARNINGS PER SHARE - basic and diluted	$0.12	$0.12

See accompanying notes

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars) For the Three Months Ended	
	March 31, 2015	March 31, 2014
NET INCOME	$2,211	$2,191
Other comprehensive income:		
Net unrealized holding gains on available for sale securities	2,310	4,087
Reclassification adjustment for (gains) losses realized in income	(10)	0
Net unrealized holding gains	2,300	4,087
Income tax effect	(806)	(1,432)
Other comprehensive income, net of tax	1,494	2,655
TOTAL COMPREHENSIVE INCOME	$3,705	$4,846

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

FARMERS NATIONAL BANC CORP. AND SUBSIDIARIES

(Unaudited)	(In Thousands of Dollars) Three Months Ended March 31, 2015	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$2,211	$2,191
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	450	330
Depreciation and amortization	467	498
Net amortization of securities	363	330
Security gains	(10)	0
Stock compensation expense	58	0
Loss on sale of other real estate owned	13	0
Earnings on bank owned life insurance	(139)	(107)
Origination of loans held for sale	(3,509)	(3,557)
Proceeds from loans held for sale	3,997	2,754
Net gains on sale of loans	(123)	(65)
Net change in other assets and liabilities	(2,913)	(2,046)
NET CASH FROM OPERATING ACTIVITIES	865	328
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	11,420	10,332
Proceeds from sales of securities available for sale	40,913	9
Purchases of securities available for sale	(23,182)	(11,022)
Loan originations and payments, net	(10,413)	3,967
Proceeds from sale of other real estate owned	113	17
Purchase of bank owned life insurance	(6,000)	0
Additions to premises and equipment	(189)	(472)
NET CASH FROM INVESTING ACTIVITIES	12,662	2,831
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(6,295)	7,817
Net change in short-term borrowings	3,082	(8,364)
Repayment of Federal Home Loan Bank borrowings and other debt	(25,261)	(260)
New Federal Home Loan Bank advance borrowings	15,000	0
Cash dividends paid	(552)	(564)
Proceeds from reissuance of treasury shares	0	32
NET CASH FROM FINANCING ACTIVITIES	(14,026)	(1,339)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(499)	1,820
Beginning cash and cash equivalents	27,428	27,513
Ending cash and cash equivalents	$26,929	$29,333
Supplemental cash flow information:		
Interest paid	$1,031	$1,209

Income taxes paid	$300	$0
Supplemental noncash disclosures:		
Transfer of loans to other real estate	$122	$20
Security purchases not settled	$7,298	$202

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. Other comprehensive income consists of unrealized gains and losses on securities available for sale and changes in the funded status of the post-retirement health plan, which are recognized as separate components of equity, net of tax effects. For the three month period ended March 31, 2015, there was no change in the funded status of the post-retirement health plan.

Securities:

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio at March 31, 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
March 31, 2015				
U.S. Treasury and U.S. government sponsored entities	$ 18,812	$ 401	$ (7)	$ 19,206
State and political subdivisions	94,081	1,890	(393)	95,578
Corporate bonds	935	9	(3)	941
Mortgage-backed securities - residential	215,561	3,431	(688)	218,304
Collateralized mortgage obligations	14,872	0	(507)	14,365
Small Business Administration	21,745	1	(463)	21,283
Equity securities	121	123	(2)	242
Totals	$ 366,127	$ 5,855	$ (2,063)	$ 369,919

(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 $40.9 million during the three month period ended March 31, 2015. Gross gains of $73 thousand and gross losses of $63 thousand were realized on these sales during the three month period ended March 31, 2015. Proceeds from the sale of portfolio securities were $9 thousand during the three month period ended March 31, 2014, with no gains or losses realized.

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.

	March 31, 2015	
(In Thousands of Dollars)	Amortized Cost	Fair Value
Maturity		
Within one year	$11,824	$11,931
One to five years	53,858	54,858
Five to ten years	32,934	33,692
Beyond ten years	15,212	15,244
Mortgage-backed, collateralized mortgage obligations and Small Business Administration securities	252,178	253,952
Total	$366,006	$369,677

The following table summarizes the investment securities with unrealized losses at March 31, 2015 and December 31, 2014, 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 Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2015						
Available-for-sale						
U.S. Treasury and U.S. government sponsored entities	$0	$ 0	$5,202	$ (7)	$5,202	$ (7)
State and political subdivisions	4,619	(29)	16,437	(364)	21,056	(393)
Corporate bonds	0	0	480	(3)	480	(3)
Mortgage-backed securities - residential	14,859	(105)	47,348	(583)	62,207	(688)
Collateralized mortgage obligations	0	0	14,365	(507)	14,365	(507)
Small Business Administration	0	0	21,188	(463)	21,188	(463)
Equity securities	23	(2)	0	0	23	(2)
Total	$19,501	$ (136)	$105,020	$ (1,927)	$124,521	$ (2,063)

(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 March 31, 2015, the Company's security portfolio consisted of 321 securities, 82 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. Generally 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 and 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:

(In Thousands of Dollars)	March 31, 2015	December 31, 2014
Commercial real estate		
Owner occupied	$77,720	$74,829
Non-owner occupied	125,254	122,228
Other	29,016	26,137
Commercial	122,762	120,493
Residential real estate		
1-4 family residential	154,076	153,055
Home equity lines of credit	32,310	31,255
Consumer		
Indirect	118,065	120,931
Direct	8,888	9,071
Other	3,552	3,626
Subtotal	$671,643	$661,625
Net deferred loan costs	2,141	2,227
Allowance for loan losses	(7,723)	(7,632)
Net loans	$666,061	$656,220

The following tables present the activity in the allowance for loan losses by portfolio segment for the three month periods ended March 31, 2015 and 2014:

Three Months Ended March 31, 2015

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 2,676	$ 1,420	$ 1,689	$ 1,663	$ 184	$7,632
Provision for loan losses	232	(70)	10	352	(74)	450
Loans charged off	(4)	0	(81)	(533)	0	(618)
Recoveries	13	1	22	223	0	259
Total ending allowance balance	$ 2,917	$ 1,351	$ 1,640	$ 1,705	$ 110	$7,723

Three Months Ended March 31, 2014

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 2,752	$ 1,219	$ 1,964	$ 1,419	$ 214	$ 7,568
Provision for loan losses	22	(162)	(228)	518	180	330
Loans charged off	(57)	0	(70)	(709)	0	(836)
Recoveries	34	8	15	268	0	325
Total ending allowance balance	$ 2,751	$ 1,065	$ 1,681	$ 1,496	$ 394	$ 7,387

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 March 31, 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:

March 31, 2015

(In Thousands of Dollars)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 735	$ 219	$ 101	$ 0	$ 0	$ 1,055
Collectively evaluated for impairment	2,182	1,132	1,539	1,705	110	6,668
Total ending allowance balance	$ 2,917	$ 1,351	$ 1,640	$ 1,705	$ 110	$ 7,723
Loans:						
Loans individually evaluated for impairment	$ 7,080	$ 1,088	$ 3,608	$ 100	$ 0	$ 11,876
Loans collectively evaluated for impairment	224,240	121,335	182,326	134,007	0	661,908
Total ending loans balance	$ 231,320	$ 122,423	$ 185,934	$ 134,107	$ 0	$ 673,784

December 31, 2014

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

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

(In Thousands of Dollars)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
March 31, 2015			
With no related allowance recorded:			
Commercial real estate			
Owner occupied	$ 2,437	$ 2,302	$ 0
Non-owner occupied	385	384	0
Commercial	440	419	0
Residential real estate			
1-4 family residential	2,360	2,137	0
Home equity lines of credit	296	281	0
Consumer	175	100	0
Subtotal	6,093	5,623	0
With an allowance recorded:			
Commercial real estate			
Owner occupied	2,870	2,863	671
Non-owner occupied	1,532	1,531	64
Commercial	686	669	219
Residential real estate			
1-4 family residential	1,126	1,101	98
Home equity lines of credit	89	89	3
Subtotal	6,303	6,253	1,055
Total	$ 12,396	$ 11,876	$ 1,055

(In Thousands of Dollars)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses 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

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The following table presents the average recorded investment in impaired loans by class and interest income recognized by loan class for the three month periods ended March 31, 2015 and 2014:

(In Thousands of Dollars)	Average Recorded Investment For Three Months Ended March 31, 2015	2014	Interest Income Recognized For Three Months Ended March 31, 2015	2014
With no related allowance recorded:				
Commercial real estate				
Owner occupied	$2,311	$2,575	$16	$5
Non-owner occupied	387	391	6	0
Other	0	0	0	0
Commercial	463	931	6	5
Residential real estate				
1-4 family residential	2,125	1,332	31	14
Home equity lines of credit	251	115	3	2
Consumer	91	239	4	0
Subtotal	5,628	5,583	66	26
With an allowance recorded:				
Commercial real estate				
Owner occupied	2,870	1,654	24	25
Non-owner occupied	1,537	1,586	20	20
Commercial	1,117	1,391	1	1
Residential real estate				
1-4 family residential	983	1,390	9	11
Home equity lines of credit	90	146	1	1
Consumer	-	0	0	0
Subtotal	6,597	6,167	55	58
Total	$12,225	$11,750	$121	$84

Cash basis interest recognized during the three month periods ended March 31, 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 March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014

(In Thousands of Dollars)	Nonaccrual	Loans Past Due 90 Days or More Still Accruing	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
Commercial real estate				
Owner occupied	$3,259	$ 0	$3,315	$ 44
Non-owner occupied	38	0	41	0
Commercial	833	0	1,645	0
Residential real estate				
1-4 family residential	2,946	289	2,742	195
Home equity lines of credit	170	79	139	40
Consumer				
Indirect	88	200	90	193
Direct	32	0	36	0
Other	0	5	0	1
Total	$7,366	$ 573	$8,008	$ 473

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

(In Thousands of Dollars)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Nonaccrual	Total Past Due	Loans Not Past Due	Total
March 31, 2015						
Commercial real estate						
Owner occupied	$0	$0	$ 3,259	$3,259	$74,246	$77,505
Non-owner occupied	0	0	38	38	124,891	124,929
Other	0	0	0	0	28,886	28,886
Commercial	145	0	833	978	121,445	122,423
Residential real estate						
1-4 family residential	1,677	422	3,235	5,334	148,289	153,623
Home equity lines of credit	138	81	249	468	31,843	32,311
Consumer						
Indirect	1,447	347	288	2,082	119,585	121,667
Direct	37	27	32	96	8,792	8,888
Other	19	3	5	27	3,525	3,552
Total	$3,463	$880	$ 7,939	$12,282	$661,502	$673,784

(In Thousands of Dollars)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due and Nonaccrual	Total Past Due	Loans Not Past Due	Total
December 31, 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				0		-
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				0		-
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

Troubled Debt Restructurings:

Total troubled debt restructurings were $8.2 million and $8.1 million at March 31, 2015 and December 31, 2014, respectively. The Company has allocated $247 thousand and $242 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2015 and December 31, 2014. There were $11 thousand and $25 thousand in commitments to lend additional amounts to borrowers with loans that were classified as troubled debt restructurings at March 31, 2015 and December 31, 2014.

During the three month periods ended March 31, 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 month periods ended March 31, 2015 and 2014:

Three Months Ended March 31, 2015 (In Thousands of Dollars)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	1	$ 8	$ 8
Residential real estate			
1-4 family residential	3	354	354
Home equity lines of credit	1	50	50
Indirect	2	36	36
Total	7	$ 448	$ 448

Three Months Ended March 31, 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	$ 35	$ 35
Residential real estate			
1-4 family residential	9	393	394
Home equity lines of credit	2	52	52
Total	12	$ 480	$ 481

There were $35 thousand in charge offs and a $33 thousand increase to the provision for loan losses during the three month period ended March 31, 2015, as a result of troubled debt restructurings. There were no charge offs and a $26 thousand increase to the provision for loan losses during the three month period ended March 31, 2014.

There was one residential real estate loan for which there were payment defaults within twelve months following the modification of the troubled debt restructuring during the three month period ended March 31, 2015. This loan was past due at March 31, 2015. There was a $23 thousand provision to the loan losses 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 four indirect loans modified as troubled debt restructuring for which there were payments defaults within twelve months following the modification during the three month period ended March 31, 2014. Two of the four loans were past due at March 31, 2014. There was one loan charged off during the three month period ended March 31, 2014. There was a $1 thousand provision to the allowance for loan losses associated with these loans. 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 March 31, 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
March 31, 2015						
Commercial real estate						
Owner occupied	$70,516	$ 1,022	$5,967	$ 0	$ 0	$77,505
Non-owner occupied	121,781	487	2,661	0	0	124,929
Other	28,572	0	314	0	0	28,886
Commercial	118,227	1,519	2,677	0	0	122,423
Total	$339,096	$ 3,028	$11,619	$ 0	$ 0	$353,743

(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.

The following table presents the recorded investment in residential, consumer indirect and direct auto loans based on payment activity as of March 31, 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 1-4 Family Residential	Home Equity Lines of	Consumer Indirect	Direct	Other

		Credit			
March 31, 2015					
Performing	$150,388	$32,062	$121,379	$8,856	$3,547
Nonperforming	3,235	249	288	32	5
Total	$153,623	$32,311	$121,667	$8,888	$3,552

	Residential Real Estate		Consumer		
(In Thousands of Dollars)	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

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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 March 31, 2015 and December 31, 2014 is as follows:

	March 31, 2015	December 31, 2014
Notional amounts (In thousands)	$33,292	$ 31,459
Weighted average pay rate on interest-rate swaps	4.27 %	4.26 %
Weighted average receive rate on interest-rate swaps	2.65 %	2.67 %
Weighted average maturity (years)	6.0	5.9
Fair value of combined interest-rate swaps (In thousands)	$1,012	$ 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 month periods ended March 31, 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 March 31, 2015	2014
Basic EPS		
Net income (In thousands)	$2,211	$2,191
Weighted average shares outstanding	18,427,901	18,779,091
Basic earnings per share	$0.12	$0.12
Diluted EPS		
Net income (In thousands)	$2,211	$2,191
Weighted average shares out-standing for basic	18,427,901	18,779,091

earnings per share		
Dilutive effect of restricted stock awards	1,408	0
Weighted average shares for diluted earnings per share	18,429,309	18,779,091
Diluted earnings per share	$0.12	$0.12

There were no restricted stock awards that were considered anti-dilutive for the three month periods ended March 31, 2015 or 2014.

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 $58 thousand for the three month period ended March 31, 2015. As of March 31, 2015, there was $803 thousand of total unrecognized compensation expense related to the nonvested shares granted under the Plan. The remaining cost is expected to be recognized over 2.9 years. There were 46,957 shares awarded and $29 thousand of expense recognized for the Plan for the three month period ended March 31, 2014.

The following is the activity under the Plan during the three months ended March 31, 2015:

	Restricted Stock Units	
	Units	Weighted Average Grant Date Fair 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 March 31, 2015	127,875	$ 7.70

Other Comprehensive Income:

The following table represents the detail of other comprehensive income for the three month periods ended March 31, 2015 and 2014.

	Three Months Ended March 31, 2015		
(In Thousands of Dollars)	Pre-tax	Tax	After-Tax
Unrealized holding gains on available-for-sale securities during the period	$2,310	$(808)	$ 1,502
Reclassification adjustment for (gains) losses included in net income (1)	(10)	2	(8)
Net unrealized gains on available-for-sale securities	$2,300	$(806)	$ 1,494

	Three Months Ended March 31, 2014		
(In Thousands of Dollars)	Pre-tax	Tax	After-Tax
Unrealized holding losses on available-for-sale securities during the period	$4,087	$(1,432)	$ 2,655
Reclassification adjustment for (gains) losses included in net income (1)	0	0	0
Net unrealized losses on available-for-sale securities	$4,087	$(1,432)	$ 2,655

(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 March 31, 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 March 31, 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.

Actual and required capital amounts and ratios are presented below at year-end:

	Actual		Requirement For Capital Adequacy Purposes:		To be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2015						