FARMERS NATIONAL BANC CORP /OH/
Form 10-K
March 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

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 incorporation or organization)	(I.R.S. Employer Identification No.)
20 South Broad Street, Canfield, Ohio	44406
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: 330-533-3341

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	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

As of June 30, 2016, the estimated aggregate market value of the 'registrant's common shares, no par value (the only common equity of the registrant), held by non-affiliates of the registrant was approximately $238.0 million based upon the last sales price as of June 30, 2016 reported on NASDAQ. (The exclusion from such amount of the market value of the common shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant).

As of March 1, 2017, the registrant had outstanding 27,047,664 common shares, no par value.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K into which Document is Incorporated
Portions of the registrant’s definitive proxy statement for the 2017 Annual Meeting of Shareholders	III

FARMERS NATIONAL BANC CORP.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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PART I

Item 1. Business.

General

Farmers National Banc Corp.

Farmers National Banc Corp. (the "Company," "Farmers," "we," "our" or "us"), is a financial holding company and was organized as a one-bank holding company in 1983 under the laws of the State of Ohio and registered under the Bank Holding Company Act of 1956, as amended (the "BHCA"). Amendments to the BHCA in 1999, allowed for a bank holding company to declare itself a financial holding company and thereby engage in financial activities, including securities underwriting and dealing, insurance agency and underwriting activities, and merchant banking activities. The Company made the declaration to become a financial holding company in 2016. For a bank holding company to be eligible to declare itself a financial holding company, all of the depository institution subsidiaries must be well-capitalized and well-managed and have satisfactory or better ratings under the Community Reinvestment Act. The Company operates principally through its wholly-owned subsidiaries, The Farmers National Bank of Canfield (the "Bank" or "Farmers Bank"), Farmers Trust Company ("Trust" or "Farmers Trust"), National Associates, Inc. ("NAI") and Farmers National Captive, Inc. ("Captive"). Farmers National Insurance, LLC ("Insurance" or "Farmers Insurance") and Farmers of Canfield Investment Co. ("Investments or "Farmers Investments") are wholly-owned subsidiaries of the Bank. The Company and its subsidiaries operate in the domestic banking, trust, retirement consulting, insurance and financial management industries.

The Company's principal business consists of owning and supervising its subsidiaries. Although Farmers' directs the overall policies of its subsidiaries, including lending practices and financial resources, most day-to-day affairs are managed by their respective officers. Farmers and its subsidiaries had 441 full-time equivalent employees at December 31, 2016.

The Company's principal executive offices are located at 20 South Broad Street, Canfield, Ohio 44406, and its telephone number is (330) 533-3341. Farmers' common shares, no par value, are listed on the NASDAQ Capital Market (the "NASDAQ") under the symbol "FMNB." Farmers' business activities are managed and financial performance is primarily aggregated and reported in three lines of business, the Bank segment, the Trust segment and the Retirement Planning/Consulting segment. For a discussion of Farmers' financial performance for the fiscal year ended December 31, 2016, see the Consolidated Financial Statements and Notes to the Consolidated Financial Statements found in Item 8 of this Annual Report on Form 10-K.

The Farmers National Bank of Canfield

During 2015, the Company acquired all outstanding stock of National Bancshares Corporation ("NBOH"), the parent company of First National Bank of Orrville ("First National Bank") and Tri-State 1stBanc, Inc. ("Tri-State"), the parent company of 1st National Community Bank ("FNCB"). Additional discussion about the acquisitions can be found in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. The Bank is a full-service national banking association engaged in commercial and retail banking mainly in Mahoning, Trumbull, Columbiana, Wayne, Medina and Stark Counties in Ohio and two locations in Beaver County, Pennsylvania. The Bank's commercial and retail banking services include checking accounts, savings accounts, time deposit accounts, commercial, mortgage and installment loans, home equity loans, home equity lines of credit, night depository, safe deposit boxes, money orders, bank checks, automated teller machines, internet banking, travel cards, "E" Bond transactions, MasterCard and Visa credit cards, brokerage services and other miscellaneous services normally offered by commercial banks.

A discussion of the general development of the Bank's business and information regarding its financial performance throughout 2016, is discussed in Item 7, Management Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

The Bank faces significant competition in offering financial services to customers. Ohio has a high density of financial service providers, many of which are significantly larger institutions that have greater financial resources than the Bank, and all of which are competitors to varying degrees. Competition for loans comes principally from savings banks, savings and loan associations, commercial banks, mortgage banking companies, credit unions, insurance companies and other financial service companies. The most direct competition for deposits has historically come from savings and loan associations, savings banks, commercial banks and credit unions. Additional competition for deposits comes from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

Farmers Trust Company

During 2009, the Company acquired the Farmers Trust Company which offers a full complement of personal and corporate trust services in the areas of estate settlement, trust administration and employee benefit plans. Farmers Trust operates three offices located in Boardman, Canton and Howland, Ohio.

National Associates, Inc.

National Associates, Inc. of Cleveland, Ohio has been a part of the Company since the 2013 acquisition. The acquisition was part of the Company’s plan to increase the levels of noninterest income and to complement the existing retirement services that were already being offered through the Trust company. NAI operates from its office located in Rocky River, Ohio.

Farmers National Captive, Inc.

Farmers National Captive, Inc. was formed during 2016 and is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company and its subsidiaries. The Captive pools resources with thirteen other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves and to provide insurance where not currently available or economically feasible in today’s insurance market place. The Captive does not account for a material portion of the revenue and, therefore, will not be discussed individually, but as part of the Company.

Farmers National Insurance, LLC

Farmers Insurance was formed during 2009 and offers a variety of insurance products through licensed representatives. During 2016 the Bank completed the acquisition of the Bowers Insurance Agency, Inc. (“Bowers”). The transaction involved both cash and stock. All activity has been merged into Insurance. Farmers Insurance is a subsidiary of Farmers Bank and does not account for a material portion of the revenue and, therefore, will not be discussed individually, but as part of the Bank.

Farmers of Canfield Investment Company

Farmers of Canfield Investment Company was formed during 2014, with the primary purpose of investing in municipal securities. Farmers Investments is a subsidiary of Farmers Bank and does not account for a material portion of the revenue and, therefore, will not be discussed individually, but as part of the Bank.

Investor Relations

The Company maintains an Internet site at http://www.farmersbankgroup.com, which contains an Investor Relations section that provides access to the Company’s filings with the Securities and Exchange Commission (the “Commission”). Farmers makes available free of charge on or through its website the Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such documents filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as soon as reasonably practicable after the Company has filed these documents with the Commission. In addition, the Company's filings with the Commission may be read and copied at the Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings are also available on the Commission's web-site at http://www.sec.gov free of charge as soon as reasonably practicable after the Company has filed the above referenced reports.

Supervision and Regulation

Introduction

The Company and its subsidiaries are subject to extensive regulation by federal and state regulatory agencies. The regulation of financial holding companies and their subsidiaries is intended primarily for the protection of consumers, depositors, borrowers, the Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders. This intensive regulatory environment, among other things, may restrict the Company's ability to diversify into certain areas of financial services, acquire depository institutions in certain markets or pay dividends on its common shares. It also may require the Company to provide financial support to its banking and other subsidiaries, maintain capital balances in excess of those desired by management and pay higher deposit insurance premiums as a result of the deterioration in the financial condition of depository institutions in general.

Significant aspects of the laws and regulations that have, or could have a material impact on Farmers and its subsidiaries are described below. These descriptions are qualified in their entirety by reference to the full text of the applicable statutes, legislation, regulations and policies, as they may be amended or revised by the U.S. Congress or state legislatures and federal or state regulatory agencies, as the case may be. Changes in these statutes, legislation, regulations and policies may have a material adverse effect on the Company and its business, financial condition or results of operations.

Regulatory Agencies

Financial Holding Company. Farmers elected to be a financial holding company. A bank holding company may elect to become a financial holding company if each of its subsidiary banks is well capitalized under the prompt corrective action regulations of the FDIC, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 (the "CRA"). Financial holding companies may engage in activities that are financial in nature, including affiliating with securities firms and insurance companies, which are not otherwise permissible for a bank holding company.

As a financial holding company, Farmers is subject to regulation under the BHCA and to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Federal Reserve Board has extensive enforcement authority over financial and bank holding companies and may initiate enforcement actions for violations of laws and regulations and unsafe or unsound practices. The Federal Reserve Board may assess civil money penalties, issue cease and desist or removal orders and may require that a bank holding company divest subsidiaries, including subsidiary banks. Farmers is also required to file reports and other information with the Federal Reserve Board regarding its business operations and those of its subsidiaries.

Subsidiary Bank. The Bank is subject to regulation and examination primarily by the Office of the Comptroller of the Currency (the "OCC") and secondarily by the Federal Deposit Insurance Corporation (the "FDIC"). OCC regulations govern permissible activities, capital requirements, dividend limitations, investments, loans and other matters. The OCC has extensive enforcement authority over Farmers Bank and may impose sanctions on Farmers Bank and, under certain circumstances, may place Farmers Bank into receivership.

Farmers Bank is also subject to certain restrictions imposed by the Federal Reserve Act and Federal Reserve Board regulations regarding such matters as the maintenance of reserves against deposits, extensions of credit to Farmers or any of its subsidiaries, investments in the stock or other securities of Farmers or its subsidiaries and the taking of such stock or securities as collateral for loans to any borrower.

Non-Banking Subsidiaries. Farmers' non-banking subsidiaries are also subject to regulation by the Federal Reserve Board and other applicable federal and state agencies. In particular, Farmers National Insurance is subject to regulation by the Ohio Department of Insurance, which requires, amongst other things, the education and licensing of agencies and individual agents and imposes business conduct rules.

Securities and Exchange Commission and The NASDAQ Stock Market LLC. The Company is also under the regulation and supervision of the Commission and certain state securities commissions for matters relating to the offering and sale of its securities. The Company is subject to disclosure and regulatory requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act, and the regulations promulgated thereunder. Farmers common shares are listed on the NASDAQ under the symbol "FMNB" and the Company is subject to the rules for NASDAQ listed companies.

Federal Home Loan Bank. Farmers Bank is a member of the Federal Home Loan Bank of Cincinnati (the "FHLB"), which provides credit to its members in the form of advances. As a member of the FHLB, the Bank must maintain an investment in the capital stock of the FHLB in a specified amount. Upon the origination or renewal of a loan or advance, the FHLB is required by law to obtain and maintain a security interest in certain types of collateral. The FHLB is required to establish standards of community investment or service that its members must maintain for continued access to long-term advances from the FHLB. The standards take into account a member's performance under the CRA and its record of lending to first-time home buyers.

The Federal Deposit Insurance Corporation. The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of federally-insured banks and savings associations and safeguards the safety and soundness of the financial institution industry. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC and subject to deposit insurance assessments to maintain the Deposit Insurance Fund.

The FDIC may terminate insurance coverage upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the institution's regulatory agency.

Dodd-Frank Act - Basel III

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, became 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.
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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.

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.

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.

Financial Holding Company Regulation

As a financial holding company, Farmers' activities are subject to extensive regulation by the Federal Reserve Board under the BHCA. Generally, in addition to the BHCA limits of banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be closely related to banking, financial holding company activities may include securities underwriting and dealing, insurance agency and underwriting activities and merchant banking activities. Under Federal Reserve Board policy, a financial holding company is expected to serve as a source of financial and managerial strength to each subsidiary and to commit resources to support those subsidiaries. Under this policy, the Federal Reserve Board may require the company to contribute additional capital to an undercapitalized subsidiary and may disapprove of the payment of dividends to the holding company's shareholders if the Federal Reserve Board believes the payment of such dividends would be an unsafe or unsound practice. The Dodd-Frank Act codified this policy as a statutory requirement.

The BHCA requires prior approval by the Federal Reserve Board for a bank holding company to directly or indirectly acquire more than a 5.0% voting interest in any bank or its parent holding company. Factors taken into consideration in making such a determination include the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, the projected capital ratios and levels on a post-acquisition basis and the acquiring institution's record of addressing the credit needs of the communities it serves.

The BHCA also governs interstate banking and restricts Farmers' nonbanking activities to those determined by the Federal Reserve Board to be financial in nature, or incidental or complementary to such financial activity, without regard to territorial restrictions. Transactions among the Bank and its affiliates are also subject to certain limitations and restrictions of the Federal Reserve Board, as described more fully under the caption "Dividends and Transactions with Affiliates" in this Item 1.

The Gramm-Leach-Bliley Act of 1999 permits a qualifying bank holding company to elect to become a financial holding company and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature and not otherwise permissible for a bank holding company. Farmers elected to become a financial holding company during 2016.

Regulation of Nationally-Chartered Banks

As a national banking association, Farmers Bank is subject to regulation under the National Banking Act and is periodically examined by the OCC. OCC regulations govern permissible activities, capital requirements, dividend limitations, investments, loans and other matters. Furthermore, Farmers Bank is subject, as a member bank, to certain rules and regulations of the Federal Reserve Board, many of which restrict activities and prescribe documentation to protect consumers. Under the Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with, or purchase the assets or assume the deposits of, another bank. In reviewing applications to approve merger and other acquisition transactions, the OCC and other bank regulatory authorities may include among their considerations the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance under the CRA and fair housing laws, and the effectiveness of the entities in restricting money laundering activities. In addition, the establishment of branches by Farmers Bank is subject to the prior approval of the OCC. The OCC has the authority to impose sanctions on the Bank and, under certain circumstances, may place Farmers Bank into receivership.

The Bank is also an insured institution as a member of the Deposit Insurance Fund. As a result, it is subject to regulation and deposit insurance assessments by the FDIC.

Dividends and Transactions with Affiliates

The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. The Company's principal source of funds to pay dividends on its common shares and service its debt is dividends from Farmers Bank and its other subsidiaries. Various federal and state statutory provisions and regulations limit the amount of dividends that Farmers Bank may pay to Farmers without regulatory approval. Farmers Bank generally may not, without prior regulatory approval, pay a dividend in an amount greater than its undivided profits after deducting statutory bad debt in excess of the Bank's allowance for loan losses. In addition, prior approval of the OCC is required for the payment of a dividend if the total of all dividends declared in a calendar year would exceed the total of Farmers Bank's net income for the year combined with its retained net income for the two preceding years.

In addition, Farmers and Farmers Bank are subject to other regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The federal banking agencies are authorized to determine under certain circumstances that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The federal banking agencies have stated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve Board has indicated that financial holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels, unless both asset quality and capital are very strong. Thus, the ability of Farmers to pay dividends in the future is currently influenced, and could be further influenced, by bank regulatory policies and capital guidelines.

The Bank is subject to restrictions under federal law that limit the transfer of funds or other items of value to the Company and its nonbanking subsidiaries and affiliates, whether in the form of loans and other extensions of credit, investments and asset purchases or other transactions involving the transfer of value from a subsidiary to an affiliate or for the benefit of an affiliate. These regulations limit the types and amounts of transactions (including loans due and extensions of credit) that may take place and generally require those transactions to be on an arm's-length basis. In general, these regulations require that any "covered transaction" by Farmers Bank with an affiliate must be secured by designated amounts of specified collateral and must be limited, as to any one of Farmers or its non-bank subsidiaries, to 10% of Farmers Bank's capital stock and surplus, and, as to Farmers and all such non-bank subsidiaries in the aggregate, to 20% of Farmers Bank's capital stock and surplus. The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization including, for example, the requirement that the 10% capital limit on covered transactions apply to financial subsidiaries. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve Board) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Capital loans from the Company to the Bank are subordinate in right of payment to deposits and certain other indebtedness of the Bank. In the event of Farmers' bankruptcy, any commitment by Farmers to a federal bank regulatory agency to maintain the capital of Farmers Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Federal Deposit Insurance Act of 1950, as amended, provides that, in the event of the "liquidation or other resolution" of an insured depository institution such as the Bank, the insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including the Company, with respect to any extensions of credit they have made to such insured depository institution.

Capital Adequacy

Both Farmers and Farmers Bank are subject to risk-based capital requirements imposed by their respective primary federal banking regulator. The Federal Reserve Bank monitors the capital adequacy of Farmers and the FDIC monitors the capital adequacy of Farmers Bank. The revised risk-based capital requirements applicable to bank holding companies and insured depository institutions, including the Company and the Bank, to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") became effective for the Company and the Bank on January 1, 2015. The Basel III Rules require the maintenance of minimum amounts and ratios of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets, and of tier 1 capital to adjusted quarterly average assets.

Under the Basel III Rules, common equity tier 1 capital consists of common stock and paid-in capital (net of treasury stock) and retained earnings. Common equity tier 1 capital is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items as specified by the Basel III Rules.

Tier 1 capital includes common equity tier 1 capital and certain additional tier 1 items as provided under the Basel III Rules.

Basel III Rules allow for insured depository institutions to make a one-time election not to include most elements of accumulated other comprehensive income in regulatory capital and instead effectively use the existing treatment under the general risk-based capital rules. The Company and Bank made this opt-out election in the first quarter of 2015 to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of our investment securities portfolio.

The Basel III Rules also changed the risk-weights of assets in an effort to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk weights (from 0% to up to 600%) for equity exposures.

The Basel III Rules limit capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements. The capital conservation buffer began being phased in on January 1, 2016, at 0.625% of risk-weighted assets, increasing each year by that amount until fully implemented at 2.5% on January 1, 2019. When fully phased in on January 1, 2019, the Basel III Rules will require the Company and Bank to maintain (i) a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 7.0% upon full implementation, (ii) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 8.50% upon full implementation, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus a 2.5% capital conservation buffer, which effectively results in a minimum ratio of 10.5% upon full implementation and (iv) a minimum leverage ratio of 4.0%.

Prior to January 1, 2015, federal regulatory agencies required the Company and Bank to maintain minimum tier 1 and total capital to risk-weighted assets of 4.0% and 8.0%, respectively, and tier 1 capital to average assets (tier 1 leverage ratio) of at least 4.0%. In order to be considered well capitalized under the rules in effect prior to January 1, 2015, the Company had to maintain tier 1 and total capital to risk-weighted assets of 6.0% and 10.0%, respectively, and a leverage ratio of 5.0%. Tier 1 capital consisted of common equity, retained earnings, certain types of preferred stock, qualifying minority interest and trust preferred securities, subject to limitations, and excluded goodwill and various intangible assets.

When fully phased in on January 1, 2019, Basel III will require banks to maintain: (i) as a newly adopted international standard, a minimum ratio of Common Equity Tier 1 ("CET1") to risk-weighted assets of 4.5%, plus a 2.5% capital conservation buffer (the "CCB") (which is added to the 4.5% CET1 ratio as that buffer is phased in, which will effectively result in a minimum ratio of CET1 to risk-weighted assets of 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the CCB (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% on full implementation); (iii) a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the CCB (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (iv) as a newly adopted international standard, a minimum leverage ratio of 3.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

The Basel III final framework provides for a number of new deductions from and adjustments to CET1, including the deduction of mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities if any one such category exceeds 10.0% of CET1 or if all such categories in the aggregate exceed 15.0% of CET1.

The following is a summary of the other major changes from the current general risk-based capital rule:

- replacement of the external credit ratings approach to standards of creditworthiness with a simplified supervisory formula approach;
- stricter limitations on the extent to which mortgage servicing assets, deferred tax assets and significant investments in unconsolidated financial institutions may be included in common equity tier 1 capital and the risk weight to be assigned to any amounts of such assets not deducted; and
- increased risk weights for past-due loans, certain commercial real estate loans and some equity exposures, and selected other changes in risk weights and credit conversion factors.

Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, the Dodd-Frank Act requires or permits federal banking agencies to adopt regulations affecting capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to the Company may differ substantially from the currently published final Basel III framework. Requirements of higher capital levels or higher levels of liquid assets could adversely impact the Company's net income and return on equity.

Volcker Rule

In December 2013, five federal agencies adopted a final regulation implementing the Volcker Rule provision of the Dodd-Frank Act (the "Volcker Rule"). The Volcker Rule places limits on the trading activity of insured depository institutions and entities affiliated with a depository institution, subject to certain exceptions. The trading activity includes a purchase or sale as principal of a security, derivative, commodity future or option on any such instrument in order to benefit from short-term price movements or to realize short-term profits. The Volcker Rule exempts specified U.S. Government, agency and/or municipal obligations, and it exempts trading conducted in certain capacities, including as a broker or other agent, through a deferred compensation or pension plan, as a fiduciary on behalf of customers, to satisfy a debt previously contracted, repurchase and securities lending agreements and risk-mitigating hedging activities.

The Volcker Rule also prohibits a banking entity from having an ownership interest in, or certain relationships with, a hedge fund or private equity fund, with a number of exceptions.

The Bank does not engage in any of the trading activities or own any of the types of funds prohibited by the Volcker Rule.

Prompt Corrective Action

The federal banking agencies have established a system of prompt corrective action to resolve certain of the problems of undercapitalized institutions. This system is based on five capital level categories for insured depository institutions: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.”

The federal banking agencies may (or in some cases must) take certain supervisory actions depending upon a bank’s capital level. For example, the banking agencies must appoint a receiver or conservator for a bank within 90 days after it becomes “critically undercapitalized” unless the bank’s primary regulator determines, with the concurrence of the FDIC, that other action would better achieve regulatory purposes. Banking operations otherwise may be significantly affected depending on a bank’s capital category. For example, a bank that is not “well capitalized” generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, and the holding company of any undercapitalized depository institution must guarantee, in part, specific aspects of the bank’s capital plan for the plan to be acceptable.

Federal law permits the OCC to order the pro rata assessment of shareholders of a national bank whose capital stock has become impaired, by losses or otherwise, to relieve a deficiency in such national bank’s capital stock. This statute also provides for the enforcement of any such pro rata assessment of shareholders of such national bank to cover such impairment of capital stock by sale, to the extent necessary, of the capital stock owned by any assessed shareholder failing to pay the assessment. As the sole shareholder of Farmers Bank, the Company is subject to such provisions.

Deposit Insurance

Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC, and Farmers Bank is assessed deposit insurance premiums to maintain the Deposit Insurance Fund. The general insurance limit is $250,000 per separately insured depositor. This insurance is backed by the full faith and credit of the United States Government. Insurance premiums for each insured institution are determined based upon the institution’s capital level and supervisory rating provided to the FDIC by the institution’s primary federal regulator and other information deemed by the FDIC to be relevant to the risk posed to the Deposit Insurance Fund by the institution. The assessment rate is then applied to the amount of the institution’s deposits to determine the institution’s insurance premium.

The FDIC assesses a quarterly deposit insurance premiums on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations. The premiums fund the Deposit Insurance Fund ("DIF"). Pursuant to the Dodd-Frank Act, the FDIC has established 2.0% as the designated reserve ratio ("DRR"), which is the amount in the DIF as a percentage of all DIF insured deposits. In

March 2016, the FDIC adopted final rules designed to meet the statutory minimum DRR of 1.35% by September 30, 2010, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets of less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. Although the FDIC's new rules reduced assessment rates on all banks, they imposed a surcharge on banks with assets of $10 billion or more to be paid until the DRR reaches 1.35%. The rules also provide assessment credits to banks with assets of less than $1 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35%. The rules further changed the method of determining risk-based assessment rates for established banks with less than $10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, which was established by the government to recapitalize a predecessor to the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by federally-insured institutions. It also may prohibit any federally-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the Deposit Insurance Fund. The FDIC also has the authority to take enforcement actions against insured institutions. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Fiscal and Monetary Policies

The Company’s business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States in order to influence general economic conditions, primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in the reserve requirements against depository institutions’ deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, as well as interest rates charged on loans and paid on deposits.

The monetary policies of the Federal Reserve board have had a significant effect on operations and results of financial institutions in the past and are expected to have significant effects in the future. In view of the changing conditions in the economy, the money markets and activities of monetary and fiscal authorities, Farmers can make no predictions as to future changes in interest rates, credit availability or deposit levels.

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a bank holding company to commence any new activity permitted by the BHCA, or to acquire any company engaged in any new activity permitted by the BHCA, each insured depository institution subsidiary of the bank holding company must have received a rating of at least “satisfactory” in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction. Farmers received a rating of “satisfactory” in its most recent CRA examination.

Customer Privacy

Farmers Bank is subject to regulations limiting the ability of financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow customers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted and conveyed to outside vendors.

Anti-Money Laundering and the USA Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") and its related regulations require insured depository institutions, broker-dealers and certain other financial institutions to have policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing. The USA Patriot Act and its regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution. In addition, federal banking agencies are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering policies, procedures and controls of the applicants.

Corporate Governance

The Sarbanes-Oxley Act of 2002 effected broad reforms to areas of corporate governance and financial reporting for public companies under the jurisdiction of the Commission. The Company's corporate governance policies include an Audit Committee Charter, a Compensation Committee Charter, Corporate Governance and Nominating Committee Charter and Code of Business Conduct and Ethics. The Board of Directors reviews the Company's corporate governance practices on a continuing basis. These and other corporate governance policies have been provided previously to shareholders and are available, along with other information on Farmers' corporate governance practices, on the Company's website at www.farmersbankgroup.com.

As directed by Section 302(a) of the Sarbanes-Oxley Act, the Company's chief executive officer and chief financial officer are each required to certify that the Company's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company's internal controls, they have made certain disclosures about the Company's internal controls to its auditors and the audit committee of the Board of Directors and they have included information in the Company's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

Executive and Incentive Compensation

In June 2010, the Federal Reserve Board, OCC and FDIC issued joint interagency guidance on incentive compensation policies (the "Joint Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should: (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks; (ii) be compatible with effective internal controls and risk management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

Pursuant to the Joint Guidance, the Federal Reserve Board will review as part of a regular, risk-focused examination process, the incentive compensation arrangements of financial institutions such as Farmers. Such reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination and deficiencies will be incorporated into the institution's supervisory ratings, which can affect the institution's ability to make acquisitions and take other actions. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, and prompt and effective measures are not being taken to correct the deficiencies.

On February 7, 2011, the federal banking agencies initially issued jointly proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the "First Proposed Rules"). The First Proposed Rules generally apply to financial institutions with $1.0 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees.

In May 2016, the federal bank regulatory agencies issued a second joint notice of proposed rules (the "Second Proposed Joint Rules") likewise designed to prohibit incentive-based compensation arrangements that encourage inappropriate risks at financial institutions. The Second Proposed Joint Rules would also apply to covered financial institutions with total assets of $1 billion or more, but the rules would differ for each of three categories of financial institutions:

- Level 1 – institutions with assets of $250 billion or more;
- Level 2 – institutions with assets of at least $50 billion and less than $250 billion; and
- Level 3 – institutions with assets of at least $1 billion and less than $50 billion.

Farmers would be a Level 3 institution. Some of the requirements would apply only to Level 1 and Level 2 institutions. For all covered institutions, including Level 3 institutions, the proposed rules would:

- prohibit incentive-based compensation arrangements that are "excessive" or "could lead to material financial loss;"
- require incentive based compensation that is consistent with a balance of risk and reward, effective management and control of risk, and effective governance; and
- require board oversight, recordkeeping and disclosure to the appropriate regulatory agency.

Public companies will also be required, once stock exchanges impose additional listing requirements under the Dodd-Frank Act, to implement "clawback" procedures for incentive compensation payments and to disclose the details of the procedures which allow recovery of incentive compensation that was paid on the basis of erroneous financial information necessitating a restatement due to material noncompliance with financial reporting requirements. This clawback policy is intended to apply to compensation paid within a three year look-back window of the restatement and would cover all executives who received incentive awards.

The Dodd-Frank Act also provides shareholders the opportunity to cast a non-binding vote on executive compensation practices, imposes new executive compensation disclosure requirements, and contains additional considerations of the independence of compensation advisors.

Future Legislation

Various and significant legislation affecting financial institutions and the financial industry is from time to time introduced in the U.S. Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change the operating environment for Farmers and its subsidiaries in substantial and unpredictable ways, and could significantly increase or decrease the costs of doing business, limit or expand permissible activities or affect the competitive balance among financial institutions. With the enactment of the Dodd-Frank Act and the continuing implementation of final rules and regulations thereunder, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable. Farmers cannot predict the scope and timing of any such future legislation and, if enacted, the effect that it could have on its business, financial condition or results of operations.

Summary

To the extent that the foregoing information describes statutory and regulatory provisions applicable to the Company or its subsidiaries, it is qualified in its entirety by reference to the full text of those provisions or agreements. Also, such statutes, regulations and policies are continually under review by the U.S. Congress and state legislatures as well as 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 applicable statutes, regulations or regulatory policies could have a material effect on Farmers and its business, financial condition or results of operations.

Item 1A. Risk Factors.

The following are certain risk factors that could materially and negatively affect our business, results of operations, cash flows or financial condition. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause our actual results or financial condition to differ materially from those projected in forward-looking statements. The risks that are discussed below are not the only ones we face. If any of the following risks occur, our business, financial condition or results of operations could be negatively affected. Additional risks that are not presently known or that we presently deem to be immaterial could also have a material, adverse impact on our business, financial condition or results of operations.

Risks Relating to Economic and Market Conditions

Difficult market conditions and economic trends have adversely affected our industry and our business.

Beginning in the latter half of 2007 through 2009, the U.S. economy was in recession and business activity across a wide range of industries and regions in the U. S. was greatly reduced. Although economic conditions have improved, certain sectors, such as real estate and manufacturing remain weak. It is also possible that recent improvements may be reversed if current economic turmoil in Europe becomes global or the United States Congress fails to resolve certain critical fiscal policies it is now facing. The recent election of a new U.S. President may result in substantial, unpredictable changes, positive or negative, in economic and political conditions in the U.S. and globally. In addition, many local governments and many businesses are still in serious difficulty due to depressed consumer spending and continued decreased liquidity in the credit markets.

Our success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply, governmental fiscal policies and other factors beyond our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings. If during a period of reduced real estate values we are required to liquidate the collateral securing loans to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition. Moreover, the Financial Accounting Standards Board may change its requirements for establishing the loan loss allowance. The majority of our loans are to individuals and businesses in Northeast Ohio. Consequently, further significant declines in the economy in the area could have a material adverse effect on our business, financial condition or results of operations. It is uncertain when the negative credit trends in our market will reverse, and, therefore, future earnings are susceptible to further declining credit conditions in the market in which we operate.

Changes in interest rates could adversely affect income and financial condition.

Our earnings and cash flow are dependent upon our net interest income. Net interest income is the difference between the interest income generated by our interest-earning assets (consisting primarily of loans and, to a lesser extent, securities) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits and wholesale borrowings). Our level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by external factors, such as the local economy, competition for loans and deposits, the monetary policy of the Federal Reserve Board and market interest rates.

Interest rates are beyond our control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits. While we have taken measures intended to manage the risks of operating in a changing interest rate environment, there can be no assurance that such measures will be effective in avoiding undue interest rate risk. See additional interest rate risk discussion under the Market Risk section found in Item 7A of this Annual Report on Form 10-K.

Defaults by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we and our subsidiaries interact on a daily basis, and therefore could adversely affect our business, financial condition or results of operations.

Risks Related to Our Business

We extend credit to a variety of customers based on internally set standards and judgment. We manage credit risk through a program of underwriting standards, the review of certain credit decisions and an on-going process of assessment of the quality of credit already extended. Our credit standards and on-going process of credit assessment might not protect us from significant credit losses.

We take credit risk by virtue of making loans, extending loan commitments and letters of credit and, to a lesser degree, purchasing non-governmental securities. Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize “in-market” lending, while avoiding highly leveraged transactions as well as excessive industry and other concentrations. Our credit administration function employs risk management techniques to ensure that loans adhere to corporate policy and problem loans are promptly identified. While these procedures are designed to provide us with the information needed to implement policy adjustments where necessary, and to take proactive corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk.

We have significant exposure to risks associated with commercial real estate and residential real estate.

As of December 31, 2016, approximately 55.1% of our loan portfolio consisted of commercial real estate and residential real estate loans, including real estate development, construction and residential and commercial mortgage loans. Consequently, real estate-related credit risks are a significant concern for us. The adverse consequences from real estate-related credit risks tend to be cyclical and are often driven by national economic developments that are not controllable or entirely foreseeable by us or our borrowers. General difficulties in our real estate markets have recently contributed to increases in our non-performing loans, charge-offs and decreases in our income.

Our business depends significantly on general economic conditions in Ohio. Accordingly, the ability of our borrowers to repay their loans, and the value of the collateral securing such loans, may be significantly affected by economic conditions in the regions we serve or by changes in the local real estate markets. A significant decline in general economic conditions caused by inflation, recession, unemployment, acts of terrorism or other factors beyond our control could therefore have an adverse effect on our business, financial condition or results of operations.

Our indirect lending exposes us to increased credit risks.

A portion of our current lending involves the purchase of consumer automobile installment sales contracts from automobile dealers located in Northeastern Ohio. These loans are for the purchase of new or late model used cars. We serve customers over a broad range of creditworthiness, and the required terms and rates are reflective of those risk profiles. While these loans have higher yields than many of our other loans, such loans involve significant risks in addition to normal credit risk. Potential risk elements associated with indirect lending include the limited personal contact with the borrower as a result of indirect lending through dealers, the absence of assured continued employment of the borrower, the varying general creditworthiness of the borrower, changes in the local economy and difficulty in monitoring collateral. While indirect automobile loans are secured, such loans are secured by depreciating assets and characterized by loan to value ratios that could result in us not recovering the full value of an outstanding loan upon default by the borrower. Delinquencies, charge-offs and repossessions of vehicles in this portfolio are always concerns. If the economy turns for the worse, we may experience higher levels of delinquencies, repossessions and charge-offs.

Commercial and industrial loans may expose us to greater financial and credit risk than other loans.

As of December 31, 2016, approximately 14.5% of our loan portfolio consisted of commercial and industrial loans. Commercial and industrial loans generally carry larger loan balances and can involve a greater degree of financial and credit risk than other loans. Any significant failure to pay on time by our customers would hurt our earnings and cause a significant increase in non-performing loans. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. In addition, when underwriting a commercial or industrial loan, we may take a security interest in commercial real estate, and, in some instances upon a default by the borrower, we may foreclose on and take title to the property, which may lead to potential financial risks. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on our business, financial condition or results of operations.

Our allowance for loan loss may not be adequate to cover actual future losses.

We maintain an allowance for loan losses to cover current, probable incurred loan losses. Every loan we make carries a certain risk of non-repayment, and we make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and these losses may exceed current estimates. We cannot fully predict the amount or timing of losses or whether the loss allowance will be adequate in the future. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, which will require additions to the allowance. Excessive loan losses and significant additions to our allowance for loan losses could have a material adverse impact on our business, financial condition or results of operations.

We are subject to certain risks with respect to liquidity.

"Liquidity" refers to our ability to generate sufficient cash flows to support our operations and to fulfill our obligations, including commitments to originate loans, to repay our wholesale borrowings and other liabilities and to satisfy the withdrawal of deposits by our customers. Our primary source of liquidity is our core deposit base, which is raised through our retail branch system. Core deposits – savings and money market accounts, time deposits less than $250 thousand and demand deposits—comprised approximately 97.0% of total deposits at December 31, 2016. Additional available unused wholesale sources of liquidity include advances from the FHLB, issuances through dealers in the capital markets and access to certificates of deposit issued through brokers. Liquidity is further provided by unencumbered, or unpledged, investment securities that totaled $128 million at December 31, 2016. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could negatively affect our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or negative regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole, as evidenced by recent turmoil in the domestic and worldwide credit markets.

Our business strategy includes continuing our growth plans. Our business, financial condition or results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a profitable growth strategy both within our existing markets and in new markets. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. We cannot assure that we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations and could adversely affect our ability to successfully implement our business strategy. Also, if we grow more slowly than anticipated, our operating results could be materially adversely affected.

We may experience difficulties in integrating acquired businesses, or acquisitions may not perform as expected.

In 2015, we completed the acquisitions of NBOH and Tri-State and Bowers in 2016. The successful integration of these acquisitions depends on our ability to manage the operations and personnel of the acquired businesses. Integrating operations is complex and requires significant efforts and expenses. Potential difficulties we may encounter as part of the integration process include the following:

- employees may voluntarily or involuntarily exit the Company because of the acquisitions;
- our management team may have its attention diverted while trying to integrate the acquired companies;
- we may encounter obstacles when incorporating the acquired operations into our operations;
- differences in business backgrounds, corporate cultures and management philosophies;
- potential unknown liabilities and unforeseen increased expenses;
- previously undetected operational or other issues; and
- the acquired operations may not otherwise perform as expected or provide expected results.

Any of these factors could adversely affect each company’s ability to maintain relationships with customers, suppliers, employees and other constituencies or our ability to achieve the anticipated benefits of the acquisition or could reduce each company’s earnings or otherwise adversely affect our business and financial results after the acquisition.

We may fail to realize all of the anticipated benefits of acquisitions, which could reduce our anticipated profitability.

We expect that our acquisitions will result in certain synergies, business opportunities and growth prospects, although we may not fully realize these expectations. Our assumptions underlying estimates of expected cost savings may be inaccurate or general industry and business conditions may deteriorate. In addition, our growth and operating strategies for acquired businesses may be different from the strategies that the acquired companies pursued. If these factors limit our ability to integrate or operate the acquired companies successfully or on a timely basis, our

expectations of future results of operations, including certain cost savings and synergies expected to result from acquisitions, may not be met.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to retain or hire the people we want or need. In order to attract and retain qualified employees, we must compensate them at market levels. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain our competitive position, our performance, including our competitive position, could suffer, and, in turn, adversely affect our business, financial condition or results of operations.

Strong competition within the markets in which we operate could reduce our ability to attract and retain business.

In our markets, we encounter significant competition from banks, savings and loan associations, credit unions, mortgage banks and other financial service companies. As a result of their size and ability to achieve economies of scale, some of our competitors offer a broader range of products and services than we can offer. In particular, the competition includes major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Our ability to maintain our history of strong financial performance and return on investment to shareholders will depend in part on our continued ability to compete successfully in our market. Financial performance and return on investment to shareholders will also depend on our ability to expand our scope of available financial services to our customers. In addition to other banks, competitors include securities dealers, brokers, investment advisors and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to utilize alternative methods to complete financial transactions that historically have involved banks. For example, consumers can now maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition or results of operations.

We are exposed to operational risk.

Similar to any large organization, we are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers, and can expose us to litigation and regulatory action.

Given the volume of transactions we process, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process our transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss of liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, could severely harm our business.

As part of our financial institution business, we collect, process and retain sensitive and confidential client and customer information on behalf of our subsidiaries and other third parties. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. If information security is breached, information could be lost or misappropriated, resulting in financial loss or costs to us or damages to others. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by us or by our vendors, could severely damage our reputation, expose us to the risks of litigation and liability or disrupt our operations and have a material adverse effect on our business, financial condition or results of operations.

We depend on our subsidiaries for dividends, distributions and other payments.

As a financial holding company, we are a legal entity separate and distinct from our subsidiaries. Our principal source of funds to pay dividends on our common shares is dividends from these subsidiaries. Federal and state statutory provisions and regulations limit the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval. In the event our subsidiaries become unable to pay dividends to us, we may not be able to pay dividends on our outstanding common shares. Accordingly, our inability to receive dividends from our subsidiaries could also have a material adverse effect on our business, financial condition and results of operations. Further discussion of our ability to pay dividends can be found under the caption "Dividends and Transactions with Affiliates" in Item 1 of this Annual Report on Form 10-K.

We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Federal banking agencies have proposed extensive changes to their capital requirements, including raising required amounts and eliminating the inclusion of certain instruments from the calculation of capital. The final form of such regulations and their impact on the Company is unknown at this time, but may require us to raise additional capital. In addition, we may elect to raise capital to support our business or to finance acquisitions, if any, or for other anticipated reasons. Our ability to raise additional capital, if needed, will depend on financial performance, conditions in the capital markets, economic conditions and a number of other factors, including the satisfaction or release of preemptive rights in the event of a common share offering, many of which are outside our control. Therefore, there can be no assurance additional capital can be raised when needed or that capital can be raised on acceptable terms. The inability to raise capital may have a material adverse effect on our business, financial condition or results of operations.

Impairment of investment securities, goodwill, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the market decline was affected by macroeconomic conditions and whether we have the intent to sell the debt security or will be required to sell the debt security before its anticipated recovery. Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are assessed for impairment periodically or when impairment indicators are present. Assessment of goodwill and such other intangible assets could result in circumstances where the applicable intangible asset is deemed to be impaired for accounting purposes. Under such circumstances, the intangible asset's impairment would be reflected as a charge to earnings in the period. Deferred tax assets are only recognized to the extent it is more likely than not they will be realized. Should management determine it is not more likely than not that the deferred tax assets will be realized, a valuation allowance with a change to earnings would be reflected in the period. This could be realized during the current presidential administration if a change is made to reduce the corporate tax rate. If the rate is lowered during the current year and not made retroactive the deferred asset now recorded would need to be adjusted through the income statement during the current period.

Risks Related to the Legal and Regulatory Environment

Increases in FDIC insurance premiums may have a material adverse effect on our earnings.

The FDIC maintains the Deposit Insurance Fund to resolve the cost of bank failures. Since 2007, the number of bank failures has increased significantly, which dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. Also during this period, the FDIC and the U.S. Congress have instituted a program to further insure customer deposits at FDIC-member banks: (i) deposit accounts are now insured up to $250,000 per customer.

Since late 2008, the FDIC has taken various actions intended to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund. These actions have included increasing assessment rates for all insured institutions, requiring riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels, imposing special assessments and requiring insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 and full years 2010 through 2012. In addition, on February 7, 2011, the FDIC approved a final rule that changed the deposit insurance assessment base and assessment rate schedule, adopted a new large-bank pricing assessment scheme and set a target size for the Deposit Insurance Fund. The rule, as mandated by the Dodd-Frank Act, finalized a target size for the Deposit Insurance Fund at 2 percent of insured deposits. The final rule went into effect beginning with the second quarter of 2011.

We have a limited ability to control the amount of premiums we are required to pay for FDIC insurance. If there are additional financial institution failures or other significant legislative or regulatory changes, the FDIC may be required to increase assessment rates or take actions similar to those taken during 2009. Increases in FDIC insurance assessment rates may materially adversely affect our results of operations and our ability to continue to pay dividends on our common shares at the current rate or at all.

Legislative or regulatory changes or actions, or significant litigation, could adversely impact us or the businesses in which we are engaged.

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the Deposit Insurance Fund, and not to benefit our shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us or our ability to increase the value of our business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by an institution and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against us could cause us to devote significant time and resources to defending our business and may lead to penalties that materially affect us and our shareholders.

In addition to laws, regulations and actions directed at the operations of banks, proposals to reform the housing finance market consider winding down Fannie Mae and Freddie Mac, which could negatively affect our sales of loans.

Even a reduction in regulatory restrictions could adversely affect our operations and our shareholders if less restrictive regulation increases competition within the industry generally or within our markets.

Our results of operations, financial condition or liquidity may be adversely impacted by issues arising in foreclosure practices, including delays in the foreclosure process, related to certain industry deficiencies, as well as potential losses in connection with actual or projected repurchases and indemnification payments related to mortgages sold into the secondary market.

Recent announcements of deficiencies in foreclosure documentation by several large seller/servicer financial institutions have raised various concerns relating to mortgage foreclosure practices. The integrity of the foreclosure process is important to our business, as an originator and servicer of residential mortgages. As a result of our continued focus of concentrating our lending efforts in our primary markets in Ohio, as well as servicing loans for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), we do not anticipate suspending any of our foreclosure activities. During 2010, we reviewed our foreclosure procedures and concluded they are generally conservative in nature and do not present the significant documentation deficiencies underlying other industry foreclosure problems. Nevertheless, we could face delays and challenges in the foreclosure process arising from claims relating to industry practices generally, which could adversely affect recoveries and our financial results, whether through increased expenses of litigation and property maintenance, deteriorating values of underlying mortgaged properties or unsuccessful litigation results generally.

In addition, in connection with the origination and sale of residential mortgages into the secondary market, we make certain representations and warranties, which, if breached, may require us to repurchase such loans, substitute other loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. Although we believe that our mortgage documentation and procedures have been appropriate and are generally conservative in nature, it is possible that we will receive repurchase requests in the future and we may not be able to reach favorable settlements with respect to such requests. It is therefore possible that we may increase our reserves or may sustain losses associated with such loan repurchases and indemnification payments.

Environmental liability associated with commercial lending could have a material adverse effect on our business, financial condition or results of operations.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. In addition, we own and operate certain properties that may be subject to similar environmental liability risks.

Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures requiring the performance of an environmental site assessment before initiating any foreclosure action on real property, these assessments may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition or results of operations.

Changes in tax laws could adversely affect our performance.

We are subject to extensive federal, state and local taxes, including income, excise, sales/use, payroll, franchise, withholding and ad valorem taxes. Changes to our taxes could have a material adverse effect on our results of operations as mentioned in the above risk discussion concerning deferred tax assets. The federal corporate tax rate could be reduced which in turn could harm the current periods earnings. On January 1, 2014, the State of Ohio replaced the current franchise tax for financial institutions with the new Ohio Financial Institutions Tax. The

Company has determined that this new tax will have a non-material positive effect on the Company. In addition, our customers are subject to a wide variety of federal, state and local taxes. Changes in taxes paid by our customers may adversely affect their ability to purchase homes or consumer products, which could adversely affect their demand for our loans and deposit products. In addition, such negative effects on our customers could result in defaults on the loans we have made and decrease the value of mortgage-backed securities in which we have invested.

Changes to the healthcare laws in the United States may increase the number of employees who choose to participate in our healthcare plans, which may significantly increase our healthcare costs and negatively impact our financial results.

We offer healthcare coverage to our eligible employees with part of the cost subsidized by the Company. With recent changes to the healthcare laws in the United States becoming effective in 2014, more of our employees may choose to participate in our health insurance plans, which could increase our costs for such coverage and material adversely impact our costs of operations.

Anti-takeover provisions could delay or prevent an acquisition or change in control by a third party.

Provisions of the Ohio General Corporation Law, our Amended Articles of Incorporation, and our Amended Code of Regulations, including a staggered board and supermajority voting requirements, could make it more difficult for a third party to acquire control of us or could have the effect of discouraging a third party from attempting to acquire control of us.

We may be a defendant from time to time in the future in a variety of litigation and other actions, which could have a material adverse effect on our business, financial condition or results of operations.

We and our subsidiaries may be involved from time to time in the future in a variety of litigation arising out of our business. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation exceed our insurance coverage, they could have a material adverse effect on our business, financial condition or results of operations. In addition, we may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms, if at all.

Item 1B. Unresolved Staff Comments.

There are no matters of unresolved staff comments from the Commission staff.

Item 2. Properties.

Farmers National Banc Corp.'s Properties

The Company does not own any property. The Company's operations are conducted at Farmers Bank's main office, which is located at 20 and 30 South Broad Street, Canfield, Ohio.

Farmers National Bank Property

The Bank's main office is located at 20 and 30 S. Broad Street, Canfield, Ohio. The other locations of Farmers Bank are:

Office Building	40 & 46 S. Broad St., Canfield, Ohio
Austintown Office	22 N. Niles-Canfield Rd., Youngstown, Ohio
Lake Milton Office	17817 Mahoning Avenue, Lake Milton, Ohio
Cornersburg Office	3619 S. Meridian Rd., Youngstown, Ohio
Colonial Plaza Office	401 E. Main St. Canfield, Ohio
Western Reserve Office	102 W. Western Reserve Rd., Youngstown, Ohio
Salem Office	2424 East State Street, Salem, Ohio
Columbiana Office	340 State Rt. 14, Columbiana, Ohio
Damascus Office	29053 State Rt. 62 Damascus, Ohio
Poland Office	106 McKinley Way West, Poland, Ohio
Niles Office	1 South Main Street, Niles, Ohio
Niles Drive Up	170 East State Street, Niles, Ohio
Girard Office	121 North State Street, Girard, Ohio
Eastwood Office	5845 Youngstown-Warren Rd, Niles, Ohio
Mineral Ridge Office	3826 South Main Street, Mineral Ridge, Ohio
Niles Operation Center	51 South Main Street, Niles, Ohio
Canton Office	4518 Fulton Dr., Canton, Ohio
McClurg Road Office	42 McClurg Rd., Boardman, Ohio
Howland Office	1625 Niles-Cortland Rd., Warren, Ohio
Fairlawn Office	2820 W. Market St., Suite 120, Akron, Ohio
Wealth Management Building	2 S. Broad Street, Canfield, Ohio
Alliance Office	310 West State St., Alliance, Ohio
Midway Office	7227 East Lincoln Way, Apple Creek, Ohio
Dalton Office	12 West Main St., Dalton, Ohio
Calcutta Office	15703 State Rt. 170, Calcutta, Ohio
East Liverpool Office	617 Bradshaw Ave., East Liverpool, Ohio
Kidron Office	4950 Kidron Rd., Kidron, Ohio
Lisbon Office	131 East Lincoln Way, Lisbon, Ohio
Lodi Office	106 Ainsworth, Lodi, Ohio
Massillon Office	211 Lincoln Way East, Massillon, Ohio
Mayflower Office	2312 Lincoln Way NW, Massillon, Ohio
Mount Eaton Office	15974 East Main St., Mount Eaton, Ohio
Orrville Main Office	112 W. Market St., Orrville, Ohio
West High Street Office	1320 W. High St., Orrville, Ohio
Seville Office	4885 Atlantic Dr., Seville, Ohio
Smithville Office	153 East Main St., Smithville, Ohio
Burbank Road Office	4192 Burbank Rd., Wooster, Ohio
Downtown Wooster Office	305 West Liberty Street, Wooster, Ohio
Midland Office	629 Midland Ave., Midland, Pennsylvania
Beaver Lending Office	501 3rd Street, Beaver, Pennsylvania

The Bank owns all locations except the Colonial Plaza, Canton, Alliance, East Liverpool, Fairlawn, Downtown Wooster and the Beaver Lending office, which are leased.

Farmers Trust Company Property

Farmers Trust Company operates from four locations owned and leased by the Bank:

Boardman Office	42 McClurg Rd., Boardman, Ohio
Howland Office	1625 Niles-Cortland Rd., Warren, Ohio
Canton Office	4518 Fulton Dr. NW, Canton, Ohio
Downtown Wooster Office	305 West Liberty St., Wooster, Ohio

The bank owns the Boardman and Howland offices and leases space to the Trust Company. The Canton and Wooster locations are leased from third parties.

Farmers National Insurance, LLC Property

Farmers National Insurance operates from two locations which are owned by the Bank:

Wealth Management Building	2 S. Broad Street, Canfield, Ohio
Bowers Group Building	339 North High Street, Cortland, Ohio

National Associates, Inc. Property

National Associates, Inc. operates from one location which is leased:

Rocky River Office	20325 Center Ridge Rd., Cleveland, Ohio

Item 3. Legal Proceedings.

In the normal course of business, the Company and its subsidiaries are at all times subject to pending and threatened legal actions, some for which the relief or damages sought are substantial. Although Farmers is not able to predict the outcome of such actions, after reviewing pending and threatened actions with counsel, management believes that, based on the information currently available, the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the results of operations or stockholders' equity of the Company. However, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the results of operations in a particular future period as the time and amount of any resolution of such actions and its relationship to the future results of operations are not known.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities

Market Information regarding the Company's Common Shares.

Farmers' common shares currently trade under the symbol "FMNB" on the Nasdaq Capital Market. Farmers had 27,047,664 common shares outstanding and approximately 3,546 holders of record of common shares at March 1, 2017. The following table sets forth price ranges and dividend information for Farmers' common shares for the calendar quarters indicated. Quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions. Certain limitations and restrictions on the ability of Farmers to continue to pay quarterly dividends are described under the caption "Capital Resources" in Item 7 of this Part II, and under the caption "Dividends and Transactions with Affiliates" in Item 1 of Part I.

Quarter Ended	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
High	$ 9.03	$ 9.68	$ 11.82	$ 15.50
Low	$ 8.00	$ 8.54	$ 8.66	$ 9.98
Cash dividends paid per share	$ 0.04	$ 0.04	$ 0.04	$ 0.04

Quarter Ended	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
High	$ 8.45	$ 8.44	$ 8.75	$ 8.70
Low	$ 7.09	$ 7.95	$ 7.86	$ 7.60
Cash dividends paid per share	$ 0.03	$ 0.03	$ 0.03	$ 0.03

Purchases of Common Shares by Farmers.

In September 2012, the Company announced that its Board of Directors approved a share repurchase program under which the Company was authorized to repurchase up to 920,000 shares of its common stock in the open market or in privately negotiated transactions, subject to market and other conditions (the "Program"). The Program may be modified, suspended or terminated by the Company at any time. During the course of 2016, 2015 and 2014 the Company repurchased 19,900 shares, 26,800 shares and 372,368 shares of its common stock, respectively.

The following table summarizes the treasury stock activity under the program during the year ended December 31, 2016.

2016	Total Number	Average Price	Total Number	Maximum

	of Shares Purchased	Paid per Share	of Shares Purchased as Part of Publicly Announced Program	Number of Shares that May Yet be Purchased Under the Program
Beginning balance			654,234	265,766
January 1-31	4,700	$ 8.00	4,700	261,066
February 1-29	4,100	8.25	4,100	256,966
March 1-31	11,100	8.62	11,100	245,866
Ending balance	19,900	$ 8.40	674,134	245,866

Item 6. Selected Financial Data.

SELECTED FINANCIAL DATA

(Table Dollar Amounts in Thousands except Per Share Data)

For the Years Ending December 31,	2016	2015	2014	2013	2012
Summary of Earnings					
Total Interest and Dividend Income					
(including fees on loans)	$72,498	$53,827	$40,915	$40,959	$43,110
Total Interest Expense	4,378	4,090	4,579	5,063	6,212
Net Interest Income	68,120	49,737	36,336	35,896	36,898
Provision for Loan Losses	3,870	3,510	1,880	1,290	725
Noninterest Income (1)	23,244	18,306	15,303	13,914	12,578
Noninterest Expense	59,452	53,979	38,162	39,057	35,764
Income Before Income Taxes	28,042	10,554	11,597	9,463	12,987
Income Taxes	7,485	2,499	2,632	1,683	3,055
NET INCOME	$20,557	$8,055	$8,965	$7,780	$9,932
Per Share Data					
Basic earnings per share	$0.76	$0.36	$0.48	$0.41	$0.53
Diluted earnings per share	0.76	0.36	0.48	0.41	0.53
Cash Dividends Paid	0.16	0.12	0.12	0.12	0.18
Book Value at Year-End	7.88	7.35	6.71	6.02	6.43
Tangible Book Value (2)	6.21	5.76	6.23	5.47	6.11
Balances at Year-End					
Total Assets	$1,966,113	$1,869,902	$1,136,967	$1,137,326	$1,139,695
Earning Assets	1,819,455	1,735,843	1,074,434	1,076,073	1,082,078
Total Deposits	1,524,756	1,409,047	915,703	915,216	919,009
Short-Term Borrowings	198,460	225,832	59,136	81,617	79,886
Long-Term Borrowings	15,036	22,153	28,381	19,822	10,423
Loans Held for Sale	355	1,769	511	158	3,624
Net Loans	1,416,783	1,287,887	656,220	623,116	578,963
Total Stockholders' Equity	213,216	198,047	123,560	113,007	120,792
Average Balances					
Total Assets	$1,924,914	$1,482,527	$1,141,047	$1,141,770	$1,118,322
Total Stockholders' Equity	211,408	162,086	120,352	116,735	118,011
Significant Ratios					
Return on Average Assets (ROA)	1.07 %	0.54 %	0.79 %	0.68 %	0.89 %
Return on Average Equity (ROE)	9.72	4.97	7.45	6.66	8.42
Average Earning Assets/Average Assets	91.49	91.91	93.02	92.90	92.13
Average Equity/Average Assets	10.98	10.93	10.55	10.22	10.55
Loans/Deposits	93.63	92.04	72.50	68.91	63.83

Allowance for Loan Losses/Total Loans	0.76	0.69	1.15	1.20	1.30
Allowance for Loan Losses/Non-Acquired Loans	1.03	1.08	1.15	1.20	1.30
Allowance for Loan Losses/Nonperforming Loans	132.83	85.96	89.99	83.25	93.01
Efficiency Ratio (On tax equivalent basis)	61.59	75.26	70.24	74.82	69.94
Net Interest Margin	4.01	3.81	3.59	3.58	3.76
Dividend Payout Rate	21.03	33.32	24.95	28.89	34.05
Tangible Common Equity Ratio (3)	8.75	8.50	10.17	9.11	10.12

(1) Noninterest income includes a securities impairment charge of $3 thousand for the year ended December 31, 2013

(2) Tangible book value per share is Total Stockholders' Equity minus goodwill and other intangible assets divided by the number of shares outstanding.

(3) 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 our capital levels. Since there is no authoritative requirement to calculate the tangible common equity ratio, our 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 December 31, 2016, 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:

Reconciliation of Common Stockholders' Equity to Tangible Common Equity

December 31,	2016	2015	2014	2013	2012
Stockholders' Equity	$213,216	$198,047	$123,560	$113,007	$120,792
Less Goodwill and other intangibles	45,154	42,911	8,813	10,343	6,032
Tangible Common Equity	$168,062	$155,136	$114,747	$102,664	$114,760

Reconciliation of Total Assets to Tangible Assets

December 31,	2016	2015	2014	2013	2012
Total Assets	$1,966,113	$1,869,902	$1,136,967	$1,137,326	$1,139,695
Less Goodwill and other intangibles	45,154	42,911	8,813	10,343	6,032
Tangible Assets	$1,920,959	$1,826,991	$1,128,154	$1,126,983	$1,133,663

Acquisitions have occurred during the five year periods represented above that makes comparability difficult. See Note 2 – Business Combinations for additional details.

Reconciliation of Net Income, Excluding Merger Related Expenses

December 31,	2016	2015	2014	2013	2012
Income before income taxes - reported	$28,042	$10,554	$11,597	$9,463	$12,987
Merger related expenses	563	6,392	0	308	0
Income before income taxes - adjusted	28,605	16,946	11,597	9,771	12,987
Income tax expense (4)	7,636	4,060	2,632	1,737	3,055
Net income - adjusted	20,969	12,886	8,965	8,034	9,932
Average shares outstanding	27,000	22,678	18,675	18,773	18,792
EPS excluding merger related expenses	$0.78	$0.57	$0.48	$0.43	$0.53

(4) The income tax expense change from actual income tax expense relates to the deductibility of certain merger related expenses.

Reconciliation of Return on Average Assets and Average Equity, Excluding Merger Related Expenses

December 31,	2016	2015	2014	2013	2012
ROA excluding merger related expenses (5)	1.09%	0.87%	0.79%	0.70%	0.89%
ROE excluding merger related expenses (6)	9.92%	7.95%	7.45%	6.88%	8.42%

(5) Net income - adjusted divided by average assets

(6) Net income - adjusted divided by average equity

Average Balance Sheets and Related Yields and Rates

(Table Dollar Amounts in Thousands except Per Share Data)

Years ended December 31,	2016 AVERAGE BALANCE	INTEREST	RATE	2015 AVERAGE BALANCE	INTEREST	RATE	2014 AVERAGE BALANCE	INTEREST	RATE
EARNING ASSETS									
Loans (1) (3) (5)	$1,344,308	$63,757	4.74%	$955,415	$45,242	4.74%	$631,011	$31,390	4.97%
Taxable securities (2)	240,087	5,058	2.11	279,808	5,903	2.11	332,273	7,282	2.19
Tax-exempt securities (2) (5)	132,550	5,581	4.21	103,947	4,510	4.34	81,529	3,839	4.71
Equity securities (4) (5)	9,613	515	5.36	6,561	287	4.37	4,282	190	4.44
Federal funds sold and other cash	34,579	166	0.48	16,855	29	0.17	12,331	19	0.15
Total earning assets	1,761,137	75,077	4.26	1,362,586	55,971	4.11	1,061,426	42,720	4.02
NONEARNING ASSETS									
Cash and due from banks	32,833			24,862			20,355		
Premises and equipment	23,927			21,007			17,392		
Allowance for Loan Losses	(9,728)			(7,976)			(7,338)		
Unrealized gains on securities	4,576			1,788			(2,003)		
Other assets (1)	112,169			80,260			51,215		
Total Assets	$1,924,914			$1,482,527			$1,141,047		
INTEREST-BEARING LIABILITIES									
Time deposits	$245,384	$1,835	0.75%	$227,412	$2,610	1.15%	$217,126	$3,506	1.61%
Savings deposits	540,626	685	0.13	468,123	534	0.11	408,956	466	0.11
Demand deposits	333,712	701	0.21	219,257	345	0.16	127,066	36	0.03
Short term borrowings	211,713	689	0.33	107,850	177	0.16	72,870	46	0.06
Long term borrowings	19,886	468	2.35	34,799	424	1.22	21,240	525	2.47
Total Interest-Bearing Liabilities	1,351,321	4,378	0.32	1,057,441	4,090	0.39	847,258	4,579	0.54
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	348,003			250,628			163,644		
Other Liabilities	14,182			12,372			9,793		
Stockholders' equity	211,408			162,086			120,352		

Total Liabilities and Stockholders' Equity	$1,924,914			$1,482,527			$1,141,047		
Net interest income and interest rate spread		$70,699	3.94%		$51,881	3.72%		$38,141	3.48%
Net interest margin			4.01%			3.81%			3.59%

(1) Non-accrual loans and overdraft deposits are included in other assets.
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(2) Includes unamortized discounts and premiums. Average balance and yield are computed using the average historical amortized cost.
(3) Interest on loans includes fee income of $3.9 million, $3.0 million and $2.5 million for 2016, 2015 and 2014, respectively, and is reduced by amortization of $2.5 million, $2.3 million and $2.1 million for 2016, 2015 and 2014, respectively.
(4) Equity securities include restricted stock, which is included in other assets on the consolidated balance sheets.
(5) For 2016, adjustments of $648 thousand and $1.9 million were made to tax equate income on tax exempt loans and tax exempt securities. For 2015, adjustments of $585 thousand and $1.6 million were made to tax equate income on tax exempt loans and tax exempt securities. For 2014, adjustments of $489 thousand and $1.3 million were 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.

RATE AND VOLUME ANALYSIS

(Table Dollar Amounts in Thousands except Per Share Data)

The following table analyzes by rate and volume the dollar amount of changes in the components of the interest differential:

	2016 change from 2015			2015 change from 2014		
	Net Change	Change Due To Volume	Change Due To Rate	Net Change	Change Due To Volume	Change Due To Rate
Tax Equivalent Interest Income						
Loans	$18,515	$ 18,415	$ 100	$13,852	$ 16,138	$(2,286)
Taxable securities	(845)	(838)	(7)	(1,379)	(1,150)	(229)
Tax-exempt securities	1,071	1,241	(170)	671	1,056	(385)
Equity securities	228	134	94	97	101	(4)
Funds sold and other cash	137	30	107	10	7	3
Total interest income	$19,106	$ 18,982	$ 124	$13,251	$ 16,152	$(2,901)
Interest Expense						
Time deposits	$(776)	$ 206	$ (982)	$(896)	$ 166	$(1,062)
Savings deposits	151	83	68	68	67	1
Demand deposits	356	180	176	309	26	283
Short term borrowings	512	170	342	131	22	109
Long term borrowings	44	(182)	226	(101)	335	(436)
Total interest expense	$287	$ 457	$ (170)	$(489)	$ 616	$(1,105)
Increase (decrease) in tax equivalent net interest income	$18,819	$ 18,525	$ 294	$13,740	$ 15,536	$(1,796)

The amount of change not solely due to rate or volume changes was allocated between the change due to rate and the change due to volume based on the relative size of the rate and volume changes.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following presents a discussion and analysis of Farmers’ financial condition and results of operations by its management. The review highlights the principal factors affecting earnings and the significant changes in balance sheet items for the years 2016, 2015 and 2014. Financial information for prior years is presented when appropriate. The objective of this financial review is to enhance the reader’s understanding of the accompanying tables and charts, the consolidated financial statements, notes to financial statements and financial statistics appearing elsewhere in this Annual Report on Form 10-K. Where applicable, this discussion also reflects management’s insights of known events and trends that have or may reasonably be expected to have a material effect on Farmers' business, financial condition or results of operations.

Cautionary Note Regarding Forward Looking Statements

Discussions in this Annual Report on Form 10-K 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 that 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 Farmers' filings with the Securities and Exchange Commission, including without limitation the risk factors disclosed in Item 1A, "Risk Factors" of this Annual Report on Form 10-K.

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 Farmers conducts 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 Farmers conducts 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 similar items.

Other factors not currently anticipated may also materially and adversely affect Farmers' business, financial condition, results of operations or cash flows. There can be no assurance that future results will meet expectations. While the Company believes that the forward-looking statements in this Annual Report on Form 10-K 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. Farmers 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.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2016 and 2015.

The Company's net income totaled $20.6 million during 2016, compared to $8.1 million for 2015. On a per share basis, diluted earnings per share were $0.76 as compared to $0.36 diluted earnings per share for 2015. Excluding expenses related to acquisition activities, net income for 2016 would have been $21.0 million, or $0.78 per share, compared to $12.9 million or $0.57 per share in 2015. Common comparative ratios for results of operations include the return on average assets and return on average stockholders' equity. For 2016, the return on average equity was 9.72%, compared to 4.97% for 2015. The return on average assets was 1.07 % for 2016 and 0.54% for 2015. The annualized return on average assets and return on average equity excluding merger related expenses were 1.09% and 9.92% in 2016, compared to 0.87% and 7.95% in 2015, respectively.

The results for 2016 included $73 thousand in gains on sales of securities, compared to $94 thousand in 2015. In addition, 2016 results include $238 thousand in gains from the sale of land and buildings.

On June 1, 2016, the Bank completed the acquisition of Bowers, and merged Bowers with Insurance, the Bank's wholly-owned insurance agency subsidiary. Bowers will continue to operate out of its Cortland, Ohio location and will enhance the Company's current product lineup, and offer broader options of commercial, farm, home, and auto property/casualty insurance carriers to meet all the needs of all the Company's customers. The transaction involved both cash and 123,280 shares of stock totaling $3.2 million, including up to $1.2 million of future payments, contingent upon Bowers meeting performance targets. Goodwill of $1.8 million, which is recorded on the balance sheet, arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the companies. The goodwill was determined not to be deductible for income tax purposes. The fair value of other intangible assets of $1.6 million is related to client relationships, company name and noncompetition agreements.

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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 branches became branches of Farmers Bank. 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.

On October 1, 2015, the Company completed the acquisition of Tri-State 1st Banc, Inc. ("Tri-State"), the parent company of 1st National Community Bank ("FNCB"). Pursuant to the terms of the Merger Agreement, common shareholders of Tri-State were entitled to receive 1.747 shares of Farmers' common stock, 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 received $13.60 in cash for each share of Series A Preferred Stock, without par value, of Tri-State. Total consideration actually paid was in the form of $3.6 million in cash and $10.7 million worth of the Company's stock on October 1, 2015.

Net Interest Income

Net interest income, the principal source of the Company's earnings, represents the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. For 2016, taxable equivalent net interest income increased $18.8 million, or 36.3%, from 2015. Interest-earning assets averaged $1.761 billion during 2016, increasing $398.6 million compared to 2015. The Company's interest-bearing liabilities increased 27.8% from $1.057 billion in 2015 to $1.351 billion in 2016. The two previously mentioned acquisitions increased interest-earning assets by $647.5 million and interest-bearing liabilities by $605.5 million at their respective completion dates.

The Company finances its earning assets with a combination of interest-bearing and interest-free funds. The interest-bearing funds are composed of deposits, short-term borrowings and long-term debt. Interest paid for the use of these funds is the second factor in the net interest income equation. Interest-free funds, such as demand deposits and stockholders' equity, require no interest expense and, therefore, contribute significantly to net interest income.

The profit margin, or spread, on invested funds is a key performance measure. The Company monitors two key performance indicators - net interest spread and net interest margin. The net interest spread represents the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. The net interest spread in 2016 was 3.94%, increasing from 3.72% in 2015. The net interest margin represents the overall profit margin – net interest income as a percentage of total interest-earning assets. This performance indicator gives effect to interest earned for all investable funds including the substantial volume of interest-free funds. For 2016, the net interest margin, measured on a fully taxable equivalent basis, increased to 4.01%, compared to 3.81% in 2015. The net interest margin, excluding the impact of amortization and accretion from the current year acquisitions, improved 19 basis points to 3.95% for the year ended December 31, 2016. The accretion added $98 thousand per month during 2016 and will continue over the next several years.

The increase in net interest margin is largely a result of interest bearing liabilities repricing at lower rates and the shifting of assets from investment securities to higher interest income rates of loans. As long term time deposits mature they are being renewed at lesser rates or moving to more liquid accounts at lower interest rates. Total taxable equivalent interest income was $75.1 million for 2016, which is $19.1 million more than the $56.0 million reported in 2015. In comparing the years ending December 31, 2016 and 2015, yields on earning assets increased 15 basis points while the cost of interest bearing liabilities decreased 7 basis points. Average loans increased $388.9 million, or 40.7%, in 2016, and the loan yield remained unchanged at 4.74%. Tax equated income from securities, federal funds and other increased $591 thousand, or 5.5%, in 2016. Farmers saw its yields on these assets increase slightly from

2.64% in 2015 to 2.72% in 2016 and the average balance of investment securities and federal funds sold also increased from $407.2 million in 2015 to $416.8 million in 2016.

Total interest expense amounted to $4.4 million for 2016, a 7.0% increase from $4.1 million reported in 2015. The increase in 2016 is the result of a $204.9 million increase in interest-bearing deposits and an $89.0 million increase in other borrowings. The cost of interest-bearing liabilities decreased from 0.39% in 2015 to 0.32% in 2016.

Management will continue to evaluate future changes in interest rates and the shape of the treasury yield curve so that assets and liabilities may be priced accordingly to minimize the impact on the net interest margin.

Noninterest Income

Total noninterest income increased by $4.9 million in 2016. The increase in noninterest income is due to several factors. Gains on the sale of mortgage loans increased from $1.1 million to $2.8 million, representing an increase of $1.7 million. Insurance agency commissions also increased to $1.6 million compared to $569 thousand in 2015 and service charges on deposit accounts increased from $3.3 million in 2015 to $4.0 million in 2016, reflecting the size of the company of after the two bank acquisitions. Debit card interchange fees also increased $780 thousand or 41.5%. Other operating income also increased $599 thousand, primarily as a result of the positive impact from account level transaction volumes from the merger related growth. The Bank and Company expect these amounts to increase during 2017 as management continues to focus on growing the various sources of noninterest income.

Noninterest Expenses

Noninterest expense for 2016 was $59.5 million, compared to $54.0 million in 2015, representing an increase of $5.5 million, or 10.1%. Most of the increase was from salaries and employee benefits, which increased $5.3 million or 19.8%, mainly due to an increase in the number of employees resulting from the mergers. The Company's full time equivalent employees ("FTE") increased by 8.5% from December 31, 2015 to December 31, 2016. Occupancy and equipment costs also increased $1.2 million due to the additional banking locations resulting from the mergers. Excluding expenses related to acquisition activities, noninterest expenses measured as a percentage of average assets decreased from 3.21% in 2015 to 3.06% in 2016.

The Company's tax equivalent efficiency ratio for the twelve month period ended December 31, 2016 was 61.59%, compared to 75.26% for the same period in 2015. Excluding expenses related to acquisition activities, the efficiency ratio for the year ended December 31, 2016 improved to 60.99% compared to 66.2% in 2015. The main factors leading to the improvement in the efficiency ratio was the increase in net interest income and noninterest income, along with the stabilized level of noninterest expenses relative to average assets as explained in the preceding paragraph. The efficiency ratio is calculated as follows: non-interest expense divided by the sum of tax equivalent net interest income plus non-interest income, excluding security gains and losses and intangible amortization. This ratio is a measure of the expense incurred to generate a dollar of revenue. Management will continue to closely monitor and keep the increases in other expenses to a minimum.

Income Taxes

Income tax expense totaled $7.5 million for 2016 and $2.5 million in 2015. Income taxes are computed using the appropriate effective tax rates for each period. The increase in the current year tax expense is a result of a 165% increase in income before income taxes, from $10.55 million in 2015 to $28 million in 2016. The effective tax rates are less than the statutory tax rate primarily due to nontaxable interest and dividend income. The effective income tax rate was 26.7% for 2016 and 23.7% for 2015. Refer to Note 16 to the consolidated financial statements for additional information regarding the effective tax rate.

Comparison of Operating Results for the Years Ended December 31, 2015 and 2014.

The Company's net income totaled $8.1 million during 2015, compared to $9.0 million for 2014. On a per share basis, diluted earnings per share were $0.36 as compared to $0.48 diluted earnings per share for 2014. Excluding expenses related to acquisition activities, net income for 2015 would have been $12.9 million, or $0.57 per share. Common comparative ratios for results of operations include the return on average assets and return on average stockholders' equity. For 2015, the return on average equity was 4.97%, compared to 7.45% for 2014. The return on average assets was 0.54% for 2015 and 0.79% for 2014. Excluding expenses related to acquisition activities, the return on average assets and return on average stockholders' equity were 0.87% and 7.95%, respectively.

The results for 2015 included $94 thousand in gains on sales of securities, compared to $457 thousand in 2014.

Net Interest Income

For 2015, taxable equivalent net interest income increased $13.7 million, or 36.0%, from 2014. Interest-earning assets averaged $1.363 billion during 2015, increasing $301.2 million compared to 2014. The Company's interest-bearing liabilities increased 24.8% from $847.3 million in 2014 to $1.057 billion in 2015. The NBOH and Tri-State acquisitions increased interest-earning assets by $647.5 million and interest-bearing liabilities by $605.5 million at their respective completion dates.

Total taxable equivalent interest income was $51.9 million for 2015, which is $13.7 million more than the $38.1 million reported in 2014. In comparing the years ending December 31, 2015 and 2014, yields on earning assets increased 6 basis points while the cost of interest bearing liabilities decreased similarly at 19 basis points. Average loans increased $324.4 million, or 51.41%, in 2015, however the yields decreased from 4.97% in 2014 to 4.74% in 2015. Tax equated income from securities, federal funds and other decreased $601 thousand, or 5.30%, in 2015. Even though tax equated income decreased, Farmers saw its yields on these assets increase slightly from 2.63% in 2014 to 2.64% in 2015. The average balance of investment securities and federal funds sold decreased from $430.4 million in 2014 to $407.2 million in 2015.

Total interest expense amounted to $4.1 million for 2015, a 10.7% decrease from $4.6 million reported in 2014. The decrease in 2015 is the result of lower rates of interest paid on interest-bearing deposits and repurchase agreements. The cost of interest-bearing liabilities decreased from 0.54% in 2014 to 0.39% in 2015.

Noninterest Income

Total noninterest income increased by $3 million in 2015. The increase in noninterest income is due to several factors. Gains on the sale of mortgage loans increased from $358 thousand to $1.1 million, representing an increase of $743 thousand. Retirement plan consulting fees also increased to $2.1 million compared to $1.8 million in 2014 and service charges on deposit accounts increased from $2.6 million in 2014 to $3.3 million in 2015, reflecting the size of the company of after the two acquisitions. Investment commissions increased $146 thousand or 14%, as management continues to focus on diversifying revenue sources to decrease the reliance on net interest income as the main driver of revenue. Other operating income also increased $1 million, primarily as a result of the positive impact from account level transaction volumes from the merger related growth. Included in the increase in other operating income was debit card interchange income, which increased $618 thousand, and ATM fee income, which increased $74 thousand.

Noninterest Expenses

Noninterest expense for 2015 was $54.0 million, compared to $38.2 million in 2014, representing an increase of $15.8 million, or 41.5%. Most of the increase was from merger related costs, which were $6.4 million in 2015, compared to none in 2014. Salaries and employee benefits also increased $5.8 million, mainly due to an increase in the number of employees resulting from the mergers. The Company's full time equivalent employees ("FTE") increased by 105 from December 31, 2014 to December 31, 2015. Occupancy and equipment costs also increased $947 thousand due to the additional eighteen banking locations resulting from the mergers. Excluding expenses related to acquisition activities, noninterest expenses measured as a percentage of average assets decreased from 3.34% in 2014 to 3.21% in 2015.

The Company's tax equivalent efficiency ratio for the twelve month period ended December 31, 2015 was 75.26%, compared to 70.24% for the same period in 2014. Excluding expenses related to acquisition activities, the efficiency ratio for the year ended December 31, 2015 improved to 66.2%. The main factors leading to the improvement in the efficiency ratio was the increase in net interest income and noninterest income, along with the stabilized level of noninterest expenses relative to average assets as explained in the preceding paragraph. The efficiency ratio is calculated as follows: non-interest expense divided by the sum of tax equivalent net interest income plus non-interest income, excluding security gains and losses and intangible amortization. This ratio is a measure of the expense incurred to generate a dollar of revenue. Management will continue to closely monitor and keep the increases in other expenses to a minimum.

Income Taxes

Income tax expense totaled $2.5 million for 2015 and $2.6 million in 2014. The small decrease in the current year tax expense can be mainly attributed to the $1.0 million decrease in income before taxes. The effective tax rates are less than the statutory tax rate primarily due to nontaxable interest and dividend income. The effective income tax rate was 23.7% for 2015 and 22.7% for 2014.

Liquidity

Farmers 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.

Principal sources of liquidity include assets considered relatively liquid, such as short-term investment securities, federal funds sold and cash and due from banks.

Along with its liquid assets, Farmers has additional sources of liquidity available which help to insure 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 two major domestic banks. At December 31, 2016, Farmers had not borrowed against these lines of credit. Management feels that its liquidity position is more than adequate and will continue to monitor the position on a monthly basis. The Company also has additional borrowing capacity with the FHLB, as well as access to the Federal Reserve Discount Window, which provides an additional source of funds. The Company views its membership in the FHLB as a solid source of liquidity. As of December 31, 2016, the Bank is eligible to borrow an additional $144 million from the FHLB under various fixed rate and variable rate credit facilities. Advances outstanding from the FHLB at December 31, 2016 amounted to $132.9 million.

Farmers' primary investing activities are originating loans and purchasing securities. During 2016, net cash used by investing activities amounted to $115.2 million, compared to $23.1 million used in 2015. Net increases in loans were $133.2 million in 2016, compared to $139.7 million in 2015. The cash used by lending activities during 2016 can be attributed to the activity in the commercial real estate, residential real estate, agricultural and consumer loan portfolios. Purchases of securities available for sale were $52.6 million in 2016, compared to $72.7 million in 2015, and proceeds from maturities and sales of securities available for sale were $71.4 million in 2016, compared to $165.6 million in 2015. Net cash of $29.7 million was received as a result of the acquisitions of NBOH and Tri-State in 2015.

Farmers' primary financing activities are obtaining deposits, repurchase agreements and other borrowings. Net cash provided by financing activities amounted to $76.7 million for 2016, compared to $45.4 million in 2015. The majority of this increase can be attributed to the net change in deposits. Deposits increased $115.7 million in 2016, compared to a $44.7 million decrease in 2015. Short-term borrowings decreased $27.4 million during 2016, compared to a $91.2 million increase during 2015.

Loan Portfolio

Maturities and Sensitivities of Loans to Interest Rates

The following schedule shows the composition of loans and the percentage of loans in each category at the dates indicated. Balances include unamortized loan origination fees and costs.

Years Ended December 31,	2016		2015		2014		2013		2012	
Commercial Real Estate	$445,966	31.2 %	$408,534	31.5 %	$222,573	33.5 %	$217,362	34.4 %	$200,651	34.2 %
Commercial	204,359	14.3	199,457	15.4	120,139	18.1	105,011	16.7	97,098	16.6
Residential Real Estate	430,195	30.1	394,582	30.4	183,853	27.7	170,151	27.0	156,182	26.6
Consumer	218,100	15.3	185,077	14.3	137,276	20.7	138,148	21.9	132,647	22.6
Agricultural	129,015	9.1	109,215	8.4	11	0.0	12	0.0	14	0.0
Total Loans	$1,427,635	100.0%	$1,296,865	100.0%	$663,852	100.0%	$630,684	100.0%	$586,592	100.0%

The following schedule sets forth maturities based on remaining scheduled repayments of principal for commercial and commercial real estate loans listed above as of December 31, 2016:

Types of Loans	1 Year or less	1 to 5 Years	Over 5 Years
Commercial	$13,454	$107,448	$83,457
Commercial Real Estate	$15,051	$82,470	$348,445
Agricultural	$3,223	$19,320	$106,472

The amounts of commercial and commercial real estate loans as of December 31, 2016, based on remaining scheduled repayments of principal, are shown in the following table:

Loan Sensitivities	1 Year or less	Over 1 Year	Total
Floating or Adjustable Rates of Interest	$ 17,892	$524,710	$542,602
Fixed Rates of Interest	13,836	222,902	236,738
Total Loans	$ 31,728	$747,612	$779,340

Total loans were $1.4 billion at year-end 2016, compared to $1.3 billion at year-end 2015. Loans grew 10% organically during the past twelve months. The organic increase in loans is a direct result of Farmers' 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, agricultural, residential real estate and consumer loan portfolios. Loans comprised 76.3% of the Bank's average earning assets in 2016, compared to 70.1% in 2015. The product mix in the loan portfolio includes commercial loans comprising 14.3%, residential real estate loans 30.1%, commercial real estate loans 31.2%, consumer loans 15.3% and agricultural loans 9.1% at December 31, 2016, compared with 15.4%, 30.4%, 31.5%, 14.3% and 9.1%, respectively, at December 31, 2015.

Loans contributed 84.9% of total taxable equivalent interest income in 2016 and 80.8% in 2015. Loan yields were 4.74% in 2015, 48 basis points greater than the average rate for total earning assets. Management recognizes that while the loan portfolio holds some of the Bank's' highest yielding assets, it is inherently the most risky portfolio. Accordingly, management attempts to balance credit risk versus return with conservative credit standards. Management has developed and maintains comprehensive underwriting guidelines and a loan review function that monitors credits during and after the approval process. To minimize risks associated with changes in the borrower's future repayment capacity, the Bank generally requires scheduled periodic principal and interest payments on all types of loans and normally requires collateral. Commercial loans at December 31, 2016 increased 2.5% from year-end 2015 with outstanding balances of $204.4 million. The Bank's commercial loans are granted to customers within the immediate trade area of the Bank. The mix is diverse, covering a wide range of borrowers, business types and local municipalities. The Bank monitors and controls concentrations within a particular industry or segment of the economy. These loans are made for purposes such as equipment purchases, capital and leasehold improvements, the purchase of inventory, general working capital and small business lines of credit.

Residential real estate mortgage loans increased to $430.2 million at December 31, 2016, compared to $395.1 million in 2015. Farmers originated both fixed rate and adjustable rate mortgages during 2016. Fixed rate terms are generally limited to fifteen year terms while adjustable rate products are offered with maturities up to thirty years.

Commercial real estate loans increased from $408.5 million at December 31, 2015 to $446.0 million at December 31, 2016, an increase of $37.4 million or 9.2%. The Company's commercial real estate loan portfolio includes loans for owner occupied and non-owner occupied real estate. These loans are made to finance properties such as office and industrial buildings, hotels and retail shopping centers.

The growth in the commercial and commercial real estate loan portfolios was consistent with the improvements in the local economy. Several new projects announced in the Mahoning Valley and Stark County, along with decreased levels of unemployment have led small business owners to expand or make additional investments in their operations.

Agricultural loans increased from $109.2 million in 2015 to $129.0 million in 2016, an increase of $19.8 million or 18.1%. The Company's agricultural loan portfolio contains a diverse mix of dairy, crops, land, poultry and cattle loans. The agricultural loan portfolio increased from $11 thousand in 2014 to $109.2 million in 2015 as a result of the NBOH merger.

Summary of Loan Loss Experience

The following is an analysis of the allowance for loan losses for the periods indicated:

Years Ended December 31,	2016	2015	2014	2013	2012
Balance at Beginning of Year	$8,978	$7,632	$7,568	$7,629	$9,820
Charge-Offs:					
Commercial Real Estate	(349)	(536)	(151)	(505)	(1,225)
Commercial	(245)	(290)	(185)	(99)	(918)
Residential Real Estate	(188)	(320)	(585)	(326)	(806)
Consumer	(2,019)	(2,058)	(2,213)	(1,723)	(1,002)
Total Charge-Offs	(2,801)	(3,204)	(3,134)	(2,653)	(3,951)
Recoveries on Previous Charge-Offs:					
Commercial Real Estate	15	130	125	171	253
Commercial	45	9	29	262	50
Residential Real Estate	112	122	77	47	104
Consumer	633	779	1,087	822	628
Total Recoveries	805	1,040	1,318	1,302	1,035
Net Charge-Offs	(1,996)	(2,164)	(1,816)	(1,351)	(2,916)
Provision For Loan Losses	3,870	3,510	1,880	1,290	725
Balance at End of Year	$10,852	$8,978	$7,632	$7,568	$7,629
Ratio of Net Charge-offs to Average Loans Outstanding	0.15 %	0.22 %	0.28 %	0.23 %	0.52 %
Allowance for Loan Losses/Total Loans	0.76	0.69	1.15	1.20	1.30

Provisions charged to operations amounted to $3.9 million in 2016, compared to $3.5 million in 2015, an increase of $360 thousand. This increase is primarily due to the level of net charge-offs and the overall 10.1% organic increase in total loans, which are factors considered in management's estimate of loan loss provisions and the adequacy of the allowance for loan losses. Net charge-offs for the year ended December 31, 2016 were $2.0 million, $168 thousand less than net charge-offs for the year ended December 31, 2015. The allowance for loan losses to total loans increased from 0.69% at December 31, 2015 to 0.76% at December 31, 2016. When the acquired loans from the NBOH and Tri-State mergers are excluded the ratio is 1.03% at December 31, 2016 and

1.08% at December 31, 2015, and compares similarly with the periods prior to 2015 presented in the above table. Additionally, when loans collectively evaluated for impairment, which excludes acquired loans, are compared to the allowance for loan losses for loans collectively evaluated for impairment the ratio is 1.01% for the year ended December 31, 2016, compared to 1.03% for the year ended December 31, 2015. Nonperforming loans to total loans decreased from 0.81% at December 31, 2015 to 0.57% at December 31, 2016. In determining the estimate of the allowance for loan losses, management computes the historical loss percentage based upon the loss history of the past 12 quarters. The Company believes that using a loss history of the previous 12 quarters helps mitigate volatility in the timing of charge-offs and better reflects probable incurred losses.

The provision for loan losses charged to operating expense 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 charge-off 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.

The allowance for loan losses increased $1.9 million during the year. Aside from the various credit quality metrics discussed above, another reason for the increase in the current year allowance for loan losses was an increase in probable incurred losses associated with the commercial loan portfolio. At December 31, 2016, commercial loans collectively evaluated for impairment totaled $195.1 million with an allowance allocation of $1.8 million compared to commercial loans collectively evaluated for impairment of $156.4 million with an allowance for loan losses of $1.3 million at December 31, 2015. The commercial loan portfolio experienced a provision of $701 thousand, compared to a $234 thousand provision in 2015. Impaired loans are carried at the fair value of the underlying collateral, less estimated disposition costs, if repayment of the loan is expected to be solely dependent on the sale of the collateral. Otherwise, impaired loans are carried at the present value of expected cash flows.

Typically, commercial and commercial real estate loans are identified as impaired when they become ninety days past due, or earlier if management believes it is probable that the Company will not collect all amounts due under the terms of the loan agreement. When Farmers identifies a loan as impaired and also concludes that the loan is collateral dependent, Farmers performs an internal collateral valuation as an interim measure. Farmers typically obtains an external appraisal to validate its internal collateral valuation as soon as is practical and adjusts the associated specific loss reserve, if necessary.

The ratio of the allowance for loan losses to non-performing loans at December 31, 2016 improved to 132.83%, compared to 85.96% at December 31, 2015. Nonaccrual agricultural loans were the only category that increased during the year, from $73 thousand at December 31, 2015 to $686 thousand, or 0.53% of total agricultural loans at December 31, 2016. The balance in the allowance for loan losses increased in 2016, with the increased loan portfolio size, to $10.9 million compared to $9.0 million in 2015.

Nonperforming Assets

December 31,	2016	2015	2014	2013	2012
Nonaccrual loans:					
Commercial Real Estate	$1,410	$3,803	$3,273	$3,117	$3,915
Commercial	1,361	1,609	1,645	1,993	1,081
Residential Real Estate	2,636	3,116	2,881	2,864	2,636
Consumer	396	457	126	363	0
Agricultural	686	73	83	94	0
Total Nonaccrual Loans	$6,489	$9,058	$8,008	$8,431	$7,632
Loans Past Due 90 Days or More	1,681	1,387	473	646	596
Total Nonperforming Loans	$8,170	$10,445	$8,481	$9,077	$8,228
Other Real Estate Owned	482	942	148	171	334
Total Nonperforming Assets	$8,652	$11,387	$8,629	$9,248	$8,562
Loans modified in troubled debt restructuring	$7,007	$9,325	$8,110	$8,280	$7,642
TDRs included in Nonaccrual Loans	$3,113	$4,733	$1,436	$1,957	$818
Percentage of Nonperforming Loans to Loans	0.57 %	0.81 %	1.28 %	1.44 %	1.40 %
Percentage of Nonperforming Assets to Total Assets	0.44 %	0.61 %	0.76 %	0.81 %	0.75 %
Loans Delinquent 30-89 days	12,746	9,129	5,426	3,658	3,702
Percentage of Loans Delinquent 30-89 days to Total Loans	0.89 %	0.70 %	0.82 %	0.58 %	0.63 %

The Company has forgone interest income of approximately $553 thousand from nonaccrual loans as of December 31, 2016 that would have been earned, over the life of the loans, if all loans had performed in accordance with their original terms.

Net charge-offs as a percentage of average loans outstanding decreased from 0.23% for 2015 to 0.15% for 2016 as a result of the larger loan portfolio and improved loan quality. Net charge-offs decreased from $2.2 million in 2015 to $2.0 million in 2016. Each of the loan types experienced a decrease in gross charge-offs in comparing the two periods.

The following table summarizes the Company's allocation of the allowance for loan losses for the past five years:

December 31,	2016		2015		2014		2013		2012	
	Amount	Loans to Total Loans	Amount	Loans to Total Loans	Amount	Loans to Total Loans	Amount	Loans to Total Loans	Amount	Loans to Total Loans

Commercial Real Estate	$3,577	37.4	%	$3,127	37.5	%	$2,676	33.5	%	$2,752	34.4	%	$3,392	34.2	%
Commercial	1,874	17.2		1,373	17.8		1,420	18.1		1,219	16.7		1,453	16.6	
Residential Real Estate	2,205	30.1		1,845	30.4		1,689	27.7		1,964	27.0		1,569	26.6	
Consumer	2,766	15.3		2,160	14.3		1,663	20.7		1,419	21.9		951	22.6	
Unallocated	430	0		473	0		184	0		214	0		264	0	
	$10,852	100.0	%	$8,978	100.0	%	$7,632	100.0	%	$7,568	100.0	%	$7,629	100.0	%

The allowance allocated to each of the four loan categories should not be interpreted as an indication that charge-offs in 2017 will occur in the same proportions or that the allocation indicates future charge-off trends. The allowance allocated to the one-to-four family real estate loan category and the consumer loan category is based upon

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the Company's allowance methodology for homogeneous loans, and increases and decreases in the balances of those portfolios. In previous years, the indirect installment loan category has represented the largest percentage of loan losses. The consumer loan category represents approximately 15.3% of total loans and in 2016, the net loan losses accounted for 69.4% of the losses of the entire loan portfolio. For the commercial loan category, which represents 17.2% of the total loan portfolio, management relies on the Bank's internal loan review procedures and allocates accordingly based on loan classifications. The net charge-offs in the commercial real estate portfolio, which represents 37.4% of the total portfolio, was $334 thousand for 2016.

There were no loans other than those identified above, that management has known information about possible credit problems of borrowers and their ability to comply with the loan repayment terms. Management is actively monitoring certain borrowers' financial condition and loans which management wants to more closely monitor due to special circumstances. These loans and their potential loss exposure have been considered in management's analysis of the adequacy of the allowance for loan losses.

Loan Commitments and Lines of Credit

In the normal course of business, the Bank has extended various commitments for credit. Commitments for mortgages, revolving lines of credit and letters of credit generally are extended for a period of one month up to one year. Normally, no fees are charged on any unused portion, but an annual fee of two percent is charged for the issuance of a letter of credit.

As of December 31, 2016, there were no concentrations of loans exceeding 10% of total loans that are not disclosed as a category of loans. As of that date, there were also no other interest-earning assets that are either nonaccrual, past due, restructured or non-performing.

Investment Securities

The investment securities portfolio decreased $24.3 million in 2016. This decrease resulted from some maturing securities not being reinvested and used instead to fund loan portfolio growth. The Company's investment strategy is to maintain a diverse investment security portfolio with a higher concentration in mortgage-backed securities that are issued by U.S. Government sponsored enterprises and tax-free municipal securities. Farmers sold $11.5 million in securities in 2016, resulting in net security gains of $73 thousand. Farmers recognized market appreciation on faster paying mortgage-backed securities and lower rated municipal securities, and reinvested in new mortgage-backed securities and higher rated municipal securities to further diversify the securities portfolio. During 2014, the Company created the Investments subsidiary to hold municipal securities and take advantage of more favorable tax treatment. At December 31, 2016, the Investments entity had a balance of $76.9 million in municipal securities.

Farmers' objective in managing the investment portfolio is to preserve and enhance corporate liquidity through investment in primarily short and intermediate term securities which are readily marketable and of the highest credit quality. In general, investment in securities is limited to those funds the Bank feels it has in excess of funds used to satisfy loan demand and operating considerations.

The Volcker Rule places limits on the trading activity of insured depository institutions and entities affiliated with a depository institution, subject to certain exceptions. The Bank does not engage in any of the trading activities or own any of the types of funds regulated by the Volcker Rule.

Mortgage-backed securities are created by the pooling of mortgages and issuance of a security. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages. Prepayment estimates for mortgage-backed securities are performed at purchase to ensure that prepayment assumptions are reasonable considering the underlying collateral for the mortgage-backed securities at issue and current mortgage interest rates and to determine the yield and estimated maturity of the mortgage-backed security portfolio. Prepayments that are faster than anticipated may shorten the life of the security and may result in faster amortization of any premiums paid and thereby reduce the net yield on such securities. During periods of declining mortgage interest rates, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. All holdings of mortgage-backed securities were issued by U.S. Government sponsored enterprises.

The following table shows the carrying value of investment securities by type of obligation at the dates indicated:

Type

December 31,	2016	2015	2014
U.S. Treasury securities	$1,211	$1,192	$844
U.S. government sponsored enterprise debt securities	4,710	9,914	23,977
Mortgage-backed securities - residential and collateralized mortgage obligations	190,375	223,752	249,537
Small Business Administration	16,706	19,299	22,419
Obligations of states and political subdivisions	155,303	138,723	91,881
Equity securities	351	298	240
Corporate bonds	1,339	1,134	931
	$369,995	$394,312	$389,829

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A summary of debt securities held at December 31, 2016 classified according to maturity and including weighted average yield for each range of maturities is set forth below:

Type and Maturity Grouping	December 31, 2016		
	Fair Value	Weighted Average Yield (1)	
U.S. Treasury securities			
Maturing after one year but within five years	601	1.69	%
Maturing after five years but within ten years	610	1.97	%
Total U.S. Treasury securities	$1,211	1.83	%
U.S. government sponsored enterprise debt securities			
Maturing within one year	$502	0.73	%
Maturing after one year but within five years	3,451	1.61	%
Maturing after five years but within ten years	665	2.39	%
Maturing after ten years	92	2.25	%
Total U.S. government sponsored enterprise debt securities	$4,710	1.65	%
Mortgage-backed securities - residential and collateralized mortgage obligations (2)			
Maturing within one year	$30,526	2.07	%
Maturing after one year but within five years	78,806	2.10	%
Maturing after five years but within ten years	47,821	2.16	%
Maturing after ten years	33,222	2.36	%
Total mortgage-backed securities	$190,375	2.15	%
Small Business Administration			
Maturing within one year	$15	2.83	%
Maturing after one year but within five years	31	2.79	%
Maturing after five years but within ten years	16,660	2.04	%
Total small business administration	$16,706	2.04	%
Obligations of states and political subdivisions			
Maturing within one year	$7,058	3.68	%
Maturing after one year but within five years	56,015	3.62	%
Maturing after five years but within ten years	85,941	4.78	%
Maturing after ten years	6,289	4.90	%
Total obligations of states and political subdivisions	$155,303	4.32	%
Corporate bonds			
Maturing within one year	$300	1.10	%
Maturing after one year but within five years	837	1.81	%
Maturing after five years but within ten years	202	2.72	%
Total other securities	$1,339	1.79	%

(1) The weighted average yield has been computed by dividing the total contractual interest income adjusted for amortization of premium or accretion of discount over the life of the security by the par value of the securities outstanding. The weighted average yield of tax-exempt obligations of states and political subdivisions has been calculated on a fully taxable equivalent basis. The amounts of adjustments to interest which are based on the statutory tax rate of 35% were $90 thousand, $683 thousand, $1.4 million and $112 thousand for the four ranges of maturities.

(2) Payments based on contractual maturity.

Premises and Equipment

Premises and equipment had a net decrease of $965 thousand in 2016 as a result of the sale of land and bank premises amounting to $1.2 million and depreciation of $1.7 million. This was offset by new additions of premises and equipment amounting to $923 thousand.

Deposits

Deposits represent the Company's principal source of funds. The deposit base consists of demand deposits, savings and money market accounts and other time deposits. During the year, the Company's average total deposits increased from $1.165 billion in 2015 to $1.368 billion in 2016, representing an increase of 17.4%. Average interest bearing demand deposits increased $114.5 million and savings deposits increased $72.5 million since December 31, 2015. With interest rates continuing to be low, customers have little incentive to commit funds to term deposit accounts. Time deposits had a modest increase of $18.0 million in 2016. The Company's focus is on core deposit growth and Farmers will continue to price deposit rates to remain competitive within the market and to retain customers. At December 31, 2016, core deposits – savings and money market accounts, time deposits less than $250 thousand, demand deposits and interest bearing demand deposits represented approximately 97.0% of total deposits.

Bank Owned Life Insurance

Farmers' owns bank owned life insurance policies on the lives of certain members of management. The purpose of this transaction is to help fund the costs of employee benefit plans. The cash surrender value of these policies was $30.0 million at December 31, 2016, compared to $29.2 million at December 31, 2015.

Borrowings

Short-term borrowings decreased $27.4 million or 12.1% since December 31, 2015 as a result of the deposit growth that occurred in 2016. Most of the decrease was in short-term Federal Home Loan Advances (the "FHLB"). Long-term borrowings decreased $7.1 million or 32.1%, as maturing FHLB advances were refinanced with short-term advances to capitalize on the favorable interest rates. See Note 10 and 11 within Item 8 of this Annual report on Form 10-K for additional detail.

Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements

The following table presents, as of December 31, 2016, the Company's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts or other similar carrying value adjustments. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Commitments
12/31/2016

	Note Ref.	2017	2018	2019	2020	2021	Thereafter
Deposits without maturity		$ 1,289,037					
Certificates of deposit	9	74,624	28,725	27,315	37,231	56,693	11,132
Repurchase agreements	10	78,110					
Short-term borrowed funds	10	350					

Short-term FHLB advances	10	120,000					
Long-term borrowings	11	8,158	1,008	931	860	792	3,287
Operating leases	7	361	339	336	299	283	1,121

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Note 12 to the consolidated financial statements discusses in greater detail other commitments and contingencies and the various obligations that exists under those agreements. Examples of these commitments and contingencies include commitments to extend credit and standby letters of credit.

At December 31, 2016, the Company had no unconsolidated, related special purpose entities, nor did the Company engage in derivatives and hedging contracts that may expose the Company to liabilities greater than the amounts recorded on the consolidated balance sheet. Management's policy is to not engage in derivatives contracts for speculative trading purposes. The Company does utilize interest-rate swaps as a way of helping manage interest rate risk and not as derivatives for trading purposes. See Note 20 within Item 8 of this Annual report on Form 10-K for additional detail.

Capital Resources

Total Stockholders' Equity increased 7.7% from $198.0 million at December 31, 2015 to $213.2 million in 2016. The increase is due to the net income addition to retained earnings less the amount of dividends paid. Also contributing to the overall equity increase was the $1.2 million of stock issued as part of the purchase price of Bowers. During the year, shareholders received a total of $0.16 per share cash dividends paid in the past four quarters, a 33% increase compared to the $0.12 cash dividend per share paid in 2015. Book value increased 7.2% from $7.35 per share at December 31, 2015 to $7.88 per share at December 31, 2016. The Company's tangible book value also increased from $5.76 per share at December 31, 2015 to $6.21 per share at December 31, 2016, an increase of 7.8%. Additionally, the Company repurchased $168 thousand in treasury shares in 2016.

The Bank, as a national chartered bank, is subject to the dividend restrictions set forth by the OCC. The OCC must approve declaration of any dividends in excess of the sum of profits for the current year and retained net profits for the preceding two years (as defined). Farmers and Farmers Bank are required to maintain minimum amounts of capital to total "risk weighted" assets, as defined by the banking regulators. At December 31, 2016, under the new minimum capital requirements associated with the Basel Committee on capital and liquidity regulation (Basel III), Farmers Bank and Farmers are required to have minimum capital ratios. Actual and minimum ratios are detailed in Note 14 of the Consolidated Financial Statements. Farmers Bank and Farmers had capital ratios above the minimum levels at December 31, 2016 and 2015. At year-end 2016 and 2015, the most recent regulatory notifications categorized Farmers Bank as well capitalized under the regulatory framework for prompt corrective action.

During 2013, the Federal banking regulators approved a final rule to implement 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, became 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 Bank has retained, through a one-time election, the prior treatment for most accumulated other comprehensive income, such that unrealized gains and losses on securities available for sale that did not affect regulatory capital amounts and ratios. As mentioned in the prior paragraph, the Bank falls within the new regulatory capital ratio guidelines.

Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America and conform to general practices within the banking industry. Some of these accounting policies are considered to be critical accounting policies. 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 three accounting policies that are critical accounting policies and an understanding of these policies is necessary to understand the financial statements. These policies relate to determining the adequacy of the allowance for loan losses, if there is any impairment of goodwill and other intangibles, and estimating the fair value of assets acquired and liabilities assumed in connection with any merger activity. Additional information regarding these policies is included in the notes to the consolidated financial statements, including Note 1 (Summary of Significant

Accounting Policies), Note 4 (Loans) and Note 2 (Business Combinations), and the section above captioned "Loan Portfolio." Management believes that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time.

Farmers maintains an allowance for loan losses. The allowance for loan losses is presented as a reserve against loans on the balance sheets. Loan losses are charged off against the allowance for loan losses, while recoveries of amounts previously charged off are credited to the allowance for loan losses. A provision for loan losses is charged to operations based on management's periodic evaluation of adequacy of the allowance. The provision for credit losses provides for probable losses on loans.

Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio represents the largest asset category on the consolidated balance sheets. Management's assessment of the adequacy of the allowance for loan losses considers individually impaired loans, pools of homogeneous loans with similar risk characteristics and other environmental risk factors.

Pools of homogeneous loans with similar risk characteristics are assessed for probable losses. Probable losses are estimated through application of historical loss experience. Historical loss experience data used to establish loss estimates may not precisely correspond to the current portfolio. As a result, the historical loss experience used in the allowance analysis may not be representative of actual unrealized losses inherent in the portfolio.

Management also evaluates the impact of environmental factors which pose additional risks that may not adequately be addressed in the analyses described above. Such environmental factors could include: levels of, and trends in, delinquencies and impaired loans, charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in lending policies and procedures including those for underwriting, collection, charge-off and recovery; experience, ability, and depth of lending management and staff; national and local economic trends and conditions; industry and geographic conditions; concentrations of credit such as, but not limited to, local industries, their employees and suppliers; or any other common risk factor that might affect loss experience across one or more components of the portfolio. The determination of this component of the allowances requires considerable management judgment. To the extent actual outcomes differ from management estimates, additional provision for credit losses could be required that could adversely affect earnings or financial position in future periods. The "Loan Portfolio" section of this financial review includes a discussion of the factors driving changes in the allowance for loan losses during the current period.

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 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 is estimated by reviewing the past and projected operating results for the subsidiaries and comparable industry information. At December 31, 2016, on a consolidated basis, Farmers had intangibles of $8.0 million subject to amortization and $37.2 million of goodwill, which was not subject to periodic amortization.

Recent Accounting Pronouncements and Developments

Note 1 to the consolidated financial statements discusses new accounting policies adopted by Farmers during 2016 and the expected impact of accounting policies recently issued or proposed but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations or liquidity, the impacts are discussed in the applicable sections of this financial review and notes to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Important considerations in asset/liability management are liquidity, the balance between interest rate sensitive assets and liabilities and the adequacy of capital. Interest rate sensitive assets and liabilities are those which have yields on rates subject to change within a future time period due to maturity of the instrument or changes in market rates. While liquidity management involves meeting the funds flow requirements of the Company, the management of interest rate sensitivity focuses on the structure of these assets and liabilities with respect to maturity and repricing characteristics. Balancing interest rate sensitive assets and liabilities provides a means of tempering fluctuating interest rates and maintaining net interest margins through periods of changing interest rates. The Company monitors interest rate sensitive assets and liabilities to determine the overall interest rate position over various time frames.

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 and 100 basis point decrease in market interest rates. The assumptions and predictions include inputs to compute baseline net interest income, growth rates, expected changes in rates on interest bearing deposit accounts and loans, competition and various other factors that are difficult to accurately predict.

Changes In Interest Rate (basis points)	2016 Result	2015 Result	ALCO Guidelines
Net Interest Income Change			
+300	-0.1 %	-1.3 %	15 %
+200	0.2 %	-0.6 %	10 %
+100	0.3 %	-0.2 %	5 %
-100	-3.4 %	-2.8 %	5 %
Net Present Value Of Equity Change			
+300	-1.3 %	-8.4 %	20 %
+200	0.6 %	-4.5 %	15 %
+100	1.4 %	-1.3 %	10 %
-100	-4.0 %	-3.5 %	10 %

All interest rate change results fall within policy limits for the year ended December 31, 2016 and 2015. 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.

With the largest amount of interest sensitive assets and liabilities maturing within twelve months, the Company monitors this area most closely. Early withdrawal of deposits, prepayments of loans and loan delinquencies are some of the factors that can impact actual results in comparison to our simulation analysis. In addition, changes in rates on interest sensitive assets and liabilities may not be equal, which could result in a change in net interest margin.

Interest rate sensitivity management provides some degree of protection against net interest income volatility. It is not possible or necessarily desirable to attempt to eliminate this risk completely by matching interest sensitive assets and liabilities. Other factors, such as market demand, interest rate outlook, regulatory restraint and strategic planning also have an effect on the desired balance sheet structure.

Item 8. Financial Statements and Supplementary Financial Data.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Farmers National Banc Corp. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(1) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of; our principal executive and principal financial officers and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control-Integrated Framework. Based on that assessment, we believe that, as of December 31, 2016, our internal control over financial reporting is effective based on those criteria.

Crowe Horwath LLP has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, as stated in their report dated March 7, 2017.

/s/ Kevin J. Helmick	/s/ Carl D. Culp
Kevin J. Helmick	Carl D. Culp
President and Chief Executive Officer	Senior Executive Vice President and Treasurer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Farmers National Banc Corp.

Canfield, Ohio

We have audited the accompanying consolidated balance sheets of Farmers National Banc Corp. (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers National Banc Corp. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, are in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by COSO.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

Cleveland, Ohio
March 7, 2017

CONSOLIDATED BALANCE SHEETS

(Table Dollar Amounts in Thousands except Per Share Data)

December 31,	2016	2015
ASSETS		
Cash and due from banks	$19,678	$22,500
Federal funds sold and other	22,100	33,514
TOTAL CASH AND CASH EQUIVALENTS	41,778	56,014
Securities available for sale	369,995	394,312
Loans held for sale	355	1,769
Loans	1,427,635	1,296,865
Less allowance for loan losses	10,852	8,978
NET LOANS	1,416,783	1,287,887
Premises and equipment, net	23,225	24,190
Goodwill	37,164	35,090
Other intangibles	7,990	7,821
Bank owned life insurance	30,048	29,234
Other assets	38,775	33,585
TOTAL ASSETS	$1,966,113	$1,869,902
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$366,870	$314,650
Interest-bearing	1,157,886	1,094,397
TOTAL DEPOSITS	1,524,756	1,409,047
Short-term borrowings	198,460	225,832
Long-term borrowings	15,036	22,153
Other liabilities	14,645	14,823
TOTAL LIABILITIES	1,752,897	1,671,855
Commitments and contingent liabilities (Note 12)		
Stockholders' equity		
Common Stock - Authorized 35,000,000 shares; issued 27,713,811 in 2016 and 27,590,531 in 2015	178,317	176,287
Retained earnings	42,547	26,316
Accumulated other comprehensive income (loss)	(2,791)	133
Treasury stock, at cost; 666,147 shares in 2016 and 646,247 shares in 2015	(4,857)	(4,689)
TOTAL STOCKHOLDERS' EQUITY	213,216	198,047

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,966,113	$1,869,902

See accompanying notes

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CONSOLIDATED STATEMENTS OF INCOME

(Table Dollar Amounts in Thousands except Per Share Data)

Years ended December 31,	2016	2015	2014
INTEREST AND DIVIDEND INCOME			
Loans, including fees	$63,109	$44,657	$30,901
Taxable securities	5,058	5,903	7,282
Tax exempt securities	3,650	2,951	2,523
Dividends	515	287	190
Federal funds sold and other interest income	166	29	19
TOTAL INTEREST AND DIVIDEND INCOME	72,498	53,827	40,915
INTEREST EXPENSE			
Deposits	3,221	3,489	4,008
Short-term borrowings	689	177	46
Long-term borrowings	468	424	525
TOTAL INTEREST EXPENSE	4,378	4,090	4,579
NET INTEREST INCOME	68,120	49,737	36,336
Provision for loan losses	3,870	3,510	1,880
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	64,250	46,227	34,456
NONINTEREST INCOME			
Service charges on deposit accounts	4,010	3,253	2,627
Bank owned life insurance income, including death benefits	814	702	459
Trust fees	6,235	6,156	6,092
Insurance agency commissions	1,560	569	354
Security gains	73	94	457
Retirement plan consulting fees	1,990	2,130	1,809
Investment commissions	1,210	1,172	1,026
Net gains on sale of loans	2,843	1,101	358
Other operating income	4,509	3,129	2,121
TOTAL NONINTEREST INCOME	23,244	18,306	15,303
NONINTEREST EXPENSE			
Salaries and employee benefits	31,908	26,638	20,878
Occupancy and equipment	6,615	5,452	4,505
State and local taxes	1,544	1,171	878
Professional fees	2,757	3,180	2,451
Merger related costs	563	6,392	0
Advertising	1,332	1,325	1,112
FDIC insurance	1,055	937	733
Intangible amortization	1,461	983	767
Core processing charges	2,699	2,176	1,571
Other operating expenses	9,518	5,725	5,267

TOTAL NONINTEREST EXPENSE	59,452	53,979	38,162
INCOME BEFORE INCOME TAXES	28,042	10,554	11,597
INCOME TAXES	7,485	2,499	2,632
NET INCOME	$20,557	$8,055	$8,965
EARNINGS PER SHARE:			
Basic and Diluted	$0.76	$0.36	$0.48

See accompanying notes.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Table Dollar Amounts in Thousands except Per Share Data)

Years ended December 31,	2016	2015	2014
NET INCOME	$20,557	$8,055	$8,965
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on available for sale securities	(4,270)	(1,403)	10,486
Reclassification adjustment for gains realized in income	(73)	(94)	(457)
Net unrealized holding gains (losses)	(4,343)	(1,497)	10,029
Income tax effect	1,520	524	(3,510)
Unrealized holding gains (losses), net of reclassification and tax	(2,823)	(973)	6,519
Change in funded status of post-retirement health plan	(156)	20	60
Income tax effect	55	(7)	(21)
Change in funded status of post-retirement health plan, net of tax	(101)	13	39
Other comprehensive income (loss), net of tax	(2,924)	(960)	6,558
TOTAL COMPREHENSIVE INCOME	$17,633	$7,095	$15,523

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Table Dollar Amounts in Thousands except Per Share Data)

Years ended December 31,	2016	2015	2014
COMMON STOCK			
Balance at beginning of year	$176,287	$106,021	$105,905
Issued 123,280 shares in 2016 and 8,559,472 in 2015 as part of business combinations	1,138	69,780	0
Stock compensation expense for unvested shares	892	486	116
Balance at end of year	178,317	176,287	106,021
RETAINED EARNINGS			
Balance at beginning of year	26,316	20,944	14,215
Net income	20,557	8,055	8,965
Dividends declared:			
$.16 cash dividends per share in 2016 and $.12 per share in 2015 and 2014	(4,326)	(2,683)	(2,236)
Balance at end of year	42,547	26,316	20,944
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	133	1,093	(5,465)
Other comprehensive income (loss)	(2,924)	(960)	6,558
Balance at end of year	(2,791)	133	1,093