FARMERS NATIONAL BANC CORP /OH/
Form 10-Q
August 11, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarter ended June 30, 2008 **Commission file number 0-12055**

FARMERS NATIONAL BANC CORP.
(Exact name of registrant as specified in its charter)

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

(330) 533-3341
(Registrant s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year,
if changed since last report)

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

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

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

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

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

Class	Outstanding at July 31, 2008
Common Stock, No Par Value	13,140,107 shares

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

	(In Thousands of Dollars) June 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 24,768	$ 25,022
Federal funds sold	2,291	6,083
TOTAL CASH AND CASH EQUIVALENTS	27,059	31,105
Securities available for sale	253,533	220,151
Loans	509,514	514,106
Less allowance for loan losses	5,487	5,459
NET LOANS	504,027	508,647
Premises and equipment, net	14,350	14,516
Bank owned life insurance	10,755	10,490
Other assets	14,789	13,327
TOTAL ASSETS	$ 824,513	$ 798,236
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 63,361	$ 61,574
Interest-bearing	570,485	531,854
TOTAL DEPOSITS	633,846	593,428
Short-term borrowings	63,801	74,174
Long-term borrowings	49,627	52,455
Other liabilities	3,952	4,259
TOTAL LIABILITIES	751,226	724,316
Commitments and contingent liabilities		
Stockholders Equity:		
	93,156	91,741

Common Stock Authorized 25,000,000 shares; issued 15,100,094 in 2008 and 14,921,106 in 2007		
Retained earnings	6,843	7,233
Accumulated other comprehensive income (loss)	(1,818)	(653)
Treasury stock, at cost; 1,954,987 shares in 2008 and 1,892,730 in 2007	(24,894)	(24,401)
TOTAL STOCKHOLDERS EQUITY	73,287	73,920
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 824,513	$ 798,236

See accompanying notes

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

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2008	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$ 8,524	$ 8,665	$ 17,142	$ 17,030
Taxable securities	1,955	1,774	3,532	3,626
Tax exempt securities	705	682	1,403	1,364
Dividends	86	141	229	285
Federal funds sold	77	70	239	98
TOTAL INTEREST AND DIVIDEND INCOME	11,347	11,332	22,545	22,403
INTEREST EXPENSE				
Deposits	3,995	4,060	8,167	8,189
Short-term borrowings	390	706	985	1,353
Long-term borrowings	569	592	1,166	1,170
TOTAL INTEREST EXPENSE	4,954	5,358	10,318	10,712
NET INTEREST INCOME	6,393	5,974	12,227	11,691
Provision for loan losses	100	55	210	115
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,293	5,919	12,017	11,576
NONINTEREST INCOME				
Service charges on deposit accounts	643	721	1,287	1,401
Bank owned life insurance income	133	5	265	10
Security gains	0	0	194	552
Impairment of securities	(551)	0	(551)	0
Other operating income	419	414	844	774
TOTAL NONINTEREST INCOME	644	1,140	2,039	2,737
NONINTEREST EXPENSES				
Salaries and employee benefits	2,802	3,049	5,613	5,987
Occupancy and equipment	733	651	1,454	1,328
State and local taxes	205	226	416	453
Professional fees	143	146	287	293
Other operating expenses	1,212	1,099	2,331	2,228

TOTAL NONINTEREST EXPENSES	5,095	5,171	10,101	10,289
INCOME BEFORE INCOME TAXES	1,842	1,888	3,955	4,024
INCOME TAXES	308	368	697	695
NET INCOME	$ 1,534	$ 1,520	$ 3,258	$ 3,329
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Change in net unrealized gains (losses) on securities, net of reclassifications	(2,889)	(1,527)	(1,165)	(1,369)
COMPREHENSIVE INCOME (LOSS)	$ (1,355)	$ (7)	$ 2,093	$ 1,960
NET INCOME PER SHARE basic and diluted	$ 0.12	$ 0.12	$ 0.25	$ 0.26
DIVIDENDS PER SHARE	$ 0.12	$ 0.16	$ 0.28	$ 0.32

See accompanying notes

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

	(In Thousands except Per Share Data) Six Months Ended	
	June 30, 2008	**June 30, 2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,258	$ 3,329
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	210	115
Depreciation and amortization	522	537
Net amortization of securities	126	198
Security gains	(194)	(552)
Impairment of securities	551	0
Federal Home Loan Bank dividends	(115)	0
Increase in bank owned life insurance	(265)	(10)
Net change in other assets and liabilities	(1,003)	(1,839)
NET CASH FROM OPERATING ACTIVITIES	3,090	1,778
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	31,868	20,436
Proceeds from sales of securities available for sale	6,417	2,712
Purchases of securities available for sale	(73,941)	(7,060)
Loan originations and payments, net	4,297	(4,154)
Proceeds from sale of other real estate	43	0
Additions to premises and equipment	(311)	(302)
NET CASH FROM INVESTING ACTIVITIES	(31,627)	11,632
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	40,418	(31,421)
Net change in short-term borrowings	(10,373)	(4,267)
Proceeds from Federal Home Loan Bank borrowings and other debt	5,000	20,000
Repayment of Federal Home Loan Bank borrowings and other debt	(7,828)	(5,835)
Repurchase of common stock	(493)	(2,055)
Cash dividends paid	(3,648)	(4,169)
Proceeds from dividend reinvestment	1,415	1,783
NET CASH FROM FINANCING ACTIVITIES	24,491	(25,964)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,046)	(12,554)
Beginning cash and cash equivalents	31,105	34,038
Ending cash and cash equivalents	$ 27,059	$ 21,484

Supplemental cash flow information:				
Interest paid	$	(10,482)	$	(10,865)
Income taxes paid	$	(640)	$	(310)
Supplemental noncash disclosures:				
Transfer of loans to other real estate	$	113	$	0

See accompanying notes

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Principles of Consolidation:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, The Farmers National Bank of Canfield. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation:

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2007 Annual Report to Shareholders included in the Company s 2007 Annual Report on Form 10-K. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.

Estimates:

To prepare financial statements in conformity with U.S. GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses is particularly subject to change.

Segments:

The Company provides a broad range of financial services to individuals and companies in northeastern Ohio. While the Company s chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all the Company s banking operations are considered by management to be aggregated in one reportable operating segment.

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Securities:

Securities available for sale at June 30, 2008 and December 31, 2007 are summarized as follows:

(In Thousands of Dollars) **June 30, 2008**	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasury and U.S. Government sponsored enterprises	$ 44,431	$ 373	$ (254)
Mortgage-backed securities	133,657	292	(2,052)
Obligations of states and political subdivisions	72,982	201	(1,334)
Total debt securities	251,070	866	(3,640)
Equity securities	2,463	67	(89)
TOTALS	$ 253,533	$ 933	$ (3,729)

(In Thousands of Dollars) **December 31, 2007**	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasury and U.S. Government sponsored enterprises	$ 56,876	$ 352	$ (88)
Mortgage-backed securities	88,825	106	(1,249)
Obligations of states and political subdivisions	71,395	303	(451)
Total debt securities	217,096	761	(1,788)
Equity securities	3,055	66	(44)
TOTALS	$ 220,151	$ 827	$ (1,832)

Unrealized losses on debt securities issued by the U.S. Treasury, U.S. Government agencies, or U.S. Government sponsored enterprises and obligations of state and political subdivisions have not been recognized into income because the securities are of high credit quality, management has the intent and ability to hold these securities for the foreseeable future and the decline in fair value is largely due to fluctuations in market interest rates. The fair value is expected to recover as the securities approach their maturity date.

Unrealized losses on mortgage-backed securities have not been recognized into income because these securities are backed by performing assets, timely repayment of principal and interest on these securities is guaranteed by the issuer, and because management has the intent and ability to hold these securities for the foreseeable future. The fair value of these securities is expected to recover as principal payments are received.

The Corporations equity securities include floating rate preferred stock issued by the Federal National Mortgage Association (FNMA). As of June 30, 2008, the Corporation believes the impairment of the Corporation s holdings of FNMA preferred stock to be other-than-temporary. The impairment charge against income was $551 thousand and the related tax benefit was $188 thousand.

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

(Dollars in Thousands, except Per Share Data)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Basic EPS computation				
Numerator Net income	$ 1,534	$ 1,520	$ 3,258	$ 3,329
Denominator Weighted average shares outstanding	13,088,891	13,039,436	13,053,483	13,044,026
Basic earnings per share	$ .12	$ .12	$ .25	$ .26
Diluted EPS computation				
Numerator Net income	$ 1,534	$ 1,520	$ 3,258	$ 3,329
Denominator Weighted average shares outstanding for basic earnings per share	13,088,891	13,039,436	13,053,483	13,044,026
Effect of Stock Options	0	0	0	0
Weighted averages shares for diluted earnings per share	13,088,891	13,039,436	13,053,483	13,044,026
Diluted earnings per share	$ .12	$ .12	$ .25	$ .26

Stock options for 42,500 and 48,000 shares were not considered in the computing of diluted earnings per share for 2008 and 2007 respectively because they were antidilutive.

Comprehensive Income:
Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists solely of the change in unrealized gains and losses on securities available for sale, net of reclassification for gains recognized in income.

Contingencies:
The floating rate preferred stock issued by FNMA and held by the Corporation has declined substantially in value since the June 30, 2008 balance sheet date. If, by September 30, 2008, the value of the Corporation s holdings of this stock does not recover most of the decline that has occurred since June 30, 2008, the Corporation will probably record another charge to earnings for other-than-temporary impairment of this stock.

Recent Accounting Pronouncements
In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for the Corporation beginning on January 1, 2008. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material.

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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue was effective for the Corporation on January 1, 2008. There was no impact on the Company s financial statements as a result of adoption of this issue.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 became effective for derivative loan commitments issued or modified after January 1, 2008. The impact of adoption was not material.

Fair Value

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

The fair values of trading securities and securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

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Assets and Liabilities Measured on a Recurring Basis

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

(In Thousands)	June 30, 2008	Fair Value Measurements at June 30, 2008 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 253,533	$ 2,463	$ 244,312	$ 3,758

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended June 30, 2008:

(In Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Asset
Beginning balance, Jan. 1, 2008	$ 3,762
Total gains or losses (realized / unrealized) Included in other comprehensive income	(72)
Purchases	2,144
Transfers in and / or out of Level 3	(2,076)
Ending balance, June 30, 2008	$ 3,758

Assets and Liabilities Measured on a Non-Recurring Basis

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

(In Thousands)	June 30, 2008	Fair Value Measurements at June 30, 2008 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 107			$ 107

The following represent impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $906 thousand, with a valuation allowance of $799 thousand. The allowance for loan loss is based on management s judgement after considering factors such as future cash flows on impaired loans, historical loss experience, and current economic conditions. Management believes the allowance for loan loss to be adequate at June 30, 2008.

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

Forward Looking Statements

When used in this Form 10-Q, or in future filings with the Securities and Exchange Commission, in press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases will likely result, are expected to, will continue, is anticipated, estimate, project, similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Corporation s actual results to be materially different from those indicated. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the market areas the Corporation conducts business, which could materially impact credit quality trends, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the market areas the Corporation conducts business, and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Corporation undertakes no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Results of Operations

Comparison of selected financial ratios and other results at or for the three-month and six-month periods ended June 30, 2008 and 2007:

	At or for Three months ended June 30,		At or for Six months ended June 30,	
(Dollars in Thousands, except Per Share Data)	**2008**	**2007**	**2008**	**2007**
Total Assets	$ 824,513	$ 795,856	$ 824,513	$ 795,856
Net Income	$ 1,534	$ 1,520	$ 3,258	$ 3,329
Basic and Diluted Earnings per share	$ .12	$ .12	$ .25	$ .26
Return on Average Assets (Annualized)	.74%	.76%	.80%	.83%
Return on Average Equity (Annualized)	8.09%	8.12%	8.73%	8.91%
Efficiency Ratio (tax equivalent basis)	62.94%	68.40%	64.55%	69.64%
Equity to Asset Ratio	8.89%	9.27%	8.89%	9.27%
Dividends to Net Income (Year-to-date)	102.35%	137.04%	111.97%	125.23%
Net Loans to Assets	61.13%	63.66%	61.13%	63.66%
Loans to Deposits	80.38%	87.06%	80.38%	87.06%

The Corporation was able to increase earnings performance in the second quarter of 2008 over the same quarter in 2007. For the first six months of 2008, increases in net interest income and decreases in operating expenses provide optimism for the remainder of 2008. Despite the challenging banking environment, management is pleased with the momentum created by these positive results delivered so far in 2008. Management continues to remain focused on the fundamentals of revenue growth and cost containment to improve on the profitability of the corporation. Our industry continues to be under the scrutiny of the markets as loan losses continue to mount and adequate capital levels are being stressed at selected financial institutions. As we move into the second half of 2008, the corporation s management team plans to execute on various strategic initiatives that will help drive the growth and retention goals for our corporation and generate a greater return on value for our loyal shareholder base.

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

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Average Balance Sheets and Related Yields and Rates
(Dollar Amounts in Thousands)

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	AVERAGE BALANCE	INTEREST	RATE (1)	AVERAGE BALANCE	INTEREST	RATE (1)
EARNING ASSETS						
Loans (3) (4) (5)	**$ 503,042**	**$ 8,605**	**6.88%**	$ 506,202	$ 8,755	6.94%
Taxable securities	**177,804**	**1,955**	**4.42**	171,710	1,774	4.14
Tax-exempt securities (5)	**71,900**	**1,055**	**5.90**	69,944	1,016	5.83
Equity Securities (2) (5)	**8,235**	**92**	**4.49**	9,046	163	7.23
Federal funds sold	**15,301**	**77**	**2.02**	5,330	70	5.27
Total earning assets	**776,282**	**11,784**	**6.11**	762,232	11,778	6.20
NONEARNING ASSETS						
Cash and due from banks	**22,680**			22,035		
Premises and equipment	**14,436**			14,667		
Allowance for Loan Losses	**(5,492)**			(5,596)		
Unrealized gains (losses) on securities	**912**			(2,232)		
Other assets (3)	**20,803**			11,747		
Total Assets	**$ 829,621**			$ 802,853		
INTEREST-BEARING LIABILITIES						
Time deposits	**293,525**	**3,194**	**4.38%**	$ 266,744	$ 3,102	4.66%
Savings deposits	**180,446**	**688**	**1.53**	168,075	815	1.94
Demand deposits	**98,167**	**113**	**0.46**	98,325	143	0.58
Short term borrowings	**65,642**	**390**	**2.39**	79,193	706	3.56
Long term borrowings	**49,957**	**569**	**4.58**	50,557	592	4.72
Total Interest-Bearing Liabilities	**687,737**	**4,954**	**2.90**	662,894	5,358	3.24
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS EQUITY						
Demand deposits	**62,650**			59,192		
Other Liabilities	**3,813**			5,649		
Stockholders equity	**75,421**			75,118		

Total Liabilities and Stockholders Equity	**$ 829,621**				$ 802,853		
Net interest income and interest rate spread		**$**	**6,830**	**3.21%**	$	6,420	2.96%
Net interest margin				**3.54%**			3.38%

(1) Rates are calculated on an annualized basis.

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

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

(4) Interest on loans includes fee income of $458 thousand and $462 thousand for 2008 and 2007 respectively.

(5) For 2008, adjustments of $81 thousand, $350 thousand, and $6 thousand respectively are made to tax equate income on tax exempt loans, tax

exempt securities and to reflect a dividends received deduction on equity securities. For 2007, adjustments of $90 thousand, $331 thousand, and $22 thousand respectively are made to tax equate income on tax exempt loans, tax exempt securities and to reflect a dividends received deduction on equity securities. These adjustments are based on a marginal federal income tax rate of 35%, less disallowances.

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Average Balance Sheets and Related Yields and Rates
(Dollar Amounts in Thousands)

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	AVERAGE BALANCE	INTEREST	RATE (1)	AVERAGE BALANCE	INTEREST	RATE (1)
EARNING ASSETS						
Loans (3) (4) (5)	**$ 505,455**	**$ 17,305**	**6.88%**	$ 505,321	$ 17,209	6.87%
Taxable securities	**163,605**	**3,532**	**4.34**	174,854	3,626	4.18
Tax-exempt securities (5)	**71,637**	**2,101**	**5.90**	69,962	2,042	5.89
Equity Securities (2) (5)	**8,207**	**256**	**6.27**	9,677	327	6.81
Federal funds sold	**18,647**	**239**	**2.58**	3,737	98	5.29
Total earning assets	**767,551**	**23,433**	**6.14**	763,551	23,302	6.15
NONEARNING ASSETS						
Cash and due from banks	**22,755**			22,224		
Premises and equipment	**14,445**			14,689		
Allowance for Loan Losses	**(5,489)**			(5,590)		
Unrealized gains (losses) on securities	**696**			(2,325)		
Other assets (3)	**20,730**			11,940		
Total Assets	**$ 820,688**			$ 804,489		
INTEREST-BEARING LIABILITIES						
Time deposits	**$ 289,677**	**$ 6,519**	**4.53%**	$ 269,902	$ 6,177	4.62%
Savings deposits	**171,855**	**1,413**	**1.65**	171,643	1,730	2.03
Demand deposits	**97,216**	**236**	**0.49**	98,140	282	0.58
Short term borrowings	**70,021**	**985**	**2.83**	74,937	1,353	3.58
Long term borrowings	**51,048**	**1,166**	**4.59**	50,076	1,170	4.79
Total Interest-Bearing Liabilities	**679,817**	**10,319**	**3.05**	664,698	10,712	3.25
NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS EQUITY						
Demand deposits	**60,996**			58,929		
Other Liabilities	**4,855**			5,486		
Stockholders equity	**75,020**			75,376		

Total Liabilities and Stockholders Equity	**$ 820,688**			$ 804,489		
Net interest income and interest rate spread		**$ 13,114**	**3.09%**		$ 12,590	2.90%
Net interest margin			**3.44%**			3.33%

(1) Rates are calculated on an annualized basis.

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

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

(4) Interest on loans includes fee income of $797 thousand and $867 thousand for 2008 and 2007 respectively.

(5) For 2008, adjustments of $163 thousand, $698 thousand, and $27 thousand respectively are made to tax equate income on tax exempt

loans, tax exempt securities and to reflect a dividends received deduction on equity securities. For 2007, adjustments of $179 thousand, $678 thousand, and $42 thousand respectively are made to tax equate income on tax exempt loans, tax exempt securities and to reflect a dividends received deduction on equity securities. These adjustments are based on a marginal federal income tax rate of 35%, less disallowances.

Taxable equivalent net interest income. Taxable equivalent net interest income for the first six-months ended June 30, 2008 totaled $13.11 million, an increase of $524 thousand or 4.16% compared to the first six-months of 2007. Although the yield on earning assets decreased by a single basis point over the past 12 months, the net interest margin benefited from a 20 basis point decrease in the cost of interest-bearing liabilities, resulting in an overall 11 basis point increase in the net interest margin. Average time deposits increased by $19.78 million or 7.33% over the prior year six-month period. Although the average time deposits increased by nearly $20 million interest expense related to these deposits showed an increase of only $342 thousand or 5.54% over that same period.

Taxable equivalent net interest income for the quarter ended June 30, 2008 totaled $6.83 million, an increase of $410 thousand or 6.39% compared to the quarter ended June 30, 2007. The yield on earning assets decreased by 9 basis points and the cost of interest-bearing liabilities decreased by 34 basis points over the past 12 months to positively impact the net interest margin. The net interest margin has made improvement over the prior six-month period as management continues to monitor and control the corporation s cost of funds and stabilize the asset yields as much as possible.

Noninterest Income. Total noninterest income for the six-month period ended June 30, 2008 decreased by $698 thousand or 25.50% compared to the same period in 2007. This decrease is mainly due to a $551 thousand impairment charge and a $358 thousand decrease in security gains that was partially offset by an increase in bank owned life insurance income of $255 thousand.

Total noninterest income for the three-month period ended June 30, 2008 decreased by $496 thousand or 43.51% compared to the same period in 2007. This decrease is due to the $551 thousand impairment charge. Excluding the impairment charge non-interest income was $1.195 million in the second quarter of 2008, compared to $1.140 million in the second quarter in 2007, an increase of 4.8%.

Noninterest Expense. Noninterest expense was $10.10 million for the first six months of 2008 compared to $10.29 million for the same period in 2007. This amounts to a decrease of 1.83%.

Noninterest expense was $5.10 million for the quarter ended June 30, 2008 compared to $5.17 million for the same quarter in 2007. The decrease in non-interest expense is attributable to the reduction in salary expense and health insurance premiums. Management has continued to find ways to contain costs in these areas as staffing levels have been adjusted and changes initiated in the employee health insurance plan.

The efficiency ratio decreased to 64.55% for the first six months of 2008 compared to 69.64% for the first six months of 2007. The ratio was positively impacted by the improvement in taxable equivalent net interest income and a lower level of noninterest expenses. The efficiency ratio is calculated as follows: non-interest expense divided by the sum of fully taxable equivalent net interest income plus non-interest income, excluding security gains. This ratio is a measure of the expense incurred to generate a dollar of revenue. Management will continue to closely monitor the efficiency ratio.

Income Taxes. Income tax expense totaled $697 thousand for the first six months of 2008 and $695 thousand for the first six months of 2007. The effective tax rate for the first six months of 2008 was 17.62% compared to 17.27% for the same time in 2007.

Income tax expense totaled $308 thousand for the quarter ended June 30, 2008 and $368 thousand for the quarter ended June 30, 2007, a decrease of 16.30%. The decrease can be attributed to the recording of the impairment charge.

Other Comprehensive Income. For the first six months of 2008, the change in net unrealized gains on securities, net of reclassifications, resulted in an unrealized loss of $1.17 million compared to an unrealized loss of $1.37 million for the same period in 2007. The second quarter also had an unrealized loss of $2.89 million compared to an unrealized loss of $1.53 million for the same quarter in 2007. Management believes the decrease in fair value through June 30, 2008 is largely due to the volatility of the securities market and the fair value of these securities is expected to recover as principal payments are received and they approach their maturity date. Management has the intent and ability to hold these securities for the foreseeable future.

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Financial Condition

Total assets increased $26.28 million or 3.29% since December 31, 2007, as the Corporation also experienced an increase in deposit balances. Capital ratios remain strong, as shown by the ratio of equity to total assets at June 30, 2008 of 8.89%.

Securities. Securities available for sale increased $33.38 million. Security purchases were funded by the $40.42 million increase in deposits. The Corporation sold $6.42 million in market value of securities for sale, resulting in a gain of $194 thousand. In addition, there was a $1.79 million increase in the net unrealized losses on securities during the first six months of 2008.

Loans. Gross loans decreased $4.59 million since December 31, 2007. Commercial Real Estate loans decreased $5.73 million or 2.98% since December 31, 2007. Indirect installment loans also declined, down $8.04 million or 8.74%. These declines were partially offset by a $10.19 million increase in commercial and industrial loans. On a fully tax equivalent basis, loans contributed 73.85% of total interest income for the six months ended June 30, 2008 and June 30, 2007.

Allowance for Loan Losses. The following table indicates key asset quality ratios that management evaluates on an ongoing basis.

Asset Quality History

(In Thousands of Dollars)

	6/30/08	3/31/08	12/31/07	9/30/07	6/30/07
Nonperforming loans	$ 2,879	$ 2,347	$ 2,361	$ 2,890	$ 2,567
Nonperforming loans as a % of total loans	.57%	.46%	.46%	.56%	.50%
Allowance for loan losses	$ 5,487	$ 5,457	$ 5,459	$ 5,591	$ 5,593
Allowance for loan losses as a % of loans	1.08%	1.08%	1.06%	1.09%	1.09%
Allowance for loan losses as a % of nonperforming loans	190.59%	232.51%	231.22%	193.46%	217.88%

The allowance for loan losses as a percentage of loans at June 30, 2008 is 1.08%, up from the December 31, 2007 amount of 1.06%. The provision for loan losses for the first six months of 2008 and 2007 was $210 thousand and $115 thousand, respectively. Net charge-offs totaled $183 thousand for the first six months of 2008 up from $116 thousand for the first six months of 2007. The provision closely tracks net charge-offs. During 2008 approximately 66% of gross charge-offs have occurred in the indirect loan portfolio compared to 64% in 2007. Non-performing loans to total loans have increased from .46% as of December 31, 2007 to .57% as of June 30, 2008. The ratio of the allowance for loan losses (ALLL) to non-performing loans was 191%.

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

Deposits. Total deposits increased $40.42 million since December 31, 2007. Balances in the Corporation s time deposits increased $13.65 million or 4.97% between December 31, 2007 and June 30, 2008. Money market accounts increased $20.52 million since December 31, 2007. The Company continues to price deposit rates to remain competitive within the market and to retain customers.

Borrowings. Total borrowings decreased $13.20 million or 10.42% since December 31, 2007. The Corporation used some of the increase in deposits to reduce securities sold under repurchase agreements, which decreased $10.26 million during the six-month period.

Capital Resources. Total stockholders equity decreased slightly from $73.92 million at December 31, 2007 to $73.29 million at June 30, 2008. During the first six months of 2008, the mark to market adjustment of securities decreased accumulated other comprehensive income by $1.17 million and the repurchase of treasury stock decreased stockholders equity by $493 thousand.

The capital management function is a regular process that consists of providing capital for both the current financial position and the anticipated future growth of the Corporation. As of June 30, 2008 the Corporation s total risk-based capital ratio stood at 14.99%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 13.97% and 9.06%, respectively. Management believes, as of June 30, 2008, that the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Critical Accounting Policies

The Company follows financial accounting and reporting policies that are in accordance with U.S. GAAP. These policies are presented in Note A to the consolidated audited financial statements in Farmers National Banc Corp. s 2007 Annual Report to Shareholders included in Farmers National Banc Corp. s Annual Report on Form 10-K. Critical accounting policies are those policies that require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has identified two accounting policies that are critical accounting policies and an understanding of these policies is necessary to understand our financial statements. These policies relate to determining the adequacy of the allowance for loan losses and other-than-temporary impairment of securities. Additional information regarding these policies is included in the notes to the aforementioned 2007 consolidated financial statements, Note A (Summary of Significant Accounting Policies), Note B (Securities), Note C (Loans), and the sections captioned Loan Portfolio and Investment Securities .

Liquidity

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

The primary investing activities of the Company are originating loans and purchasing securities. During the first three months of 2008, net cash used in investing activities amounted to $31.63 million compared to $11.63 million provided by investing activities for the same period in 2007. Purchases of securities available for sale amounted to $73.94 million in 2008 compared to $7.06 million in 2007. Net loans decreased by $4.34 million during this year s first six-month period and increased $4.15 million over the same six-month period in 2007. The decreases in net loans during 2008 compared to 2007 can be attributed to the volatile local and national economic conditions.

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The primary financing activities of the Company are obtaining deposits, repurchase agreements and other borrowings. Net cash provided by financing activities amounted to $24.49 million for the first six months of 2008 compared to $25.96 million used by financing activities for the same period in 2007. Most of this change is a result of the net increase in deposits. Deposits increased $40.42 million for the six-month period ended June 30, 2008 compared to a $31.42 million decrease for the same period in 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Corporation s ability to maximize net income is dependent, in part, on management s ability to plan and control net interest income through management of the pricing and mix of assets and liabilities. Because a large portion of assets and liabilities of the Corporation are monetary in nature, changes in interest rates and monetary or fiscal policy affect its financial condition and can have significant impact on the net income of the Corporation.

The Corporation considers the primary market exposure to be interest rate risk. Simulation analysis is used to monitor the Corporation 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 200 basis point increase or decrease in market interest rates:

Changes In Interest Rate (basis points)	**June 30, 2008 Result**	**ALCO Guidelines**
Net Interest Income Change		
+200	-9.6%	15.00%
-200	6.9%	15.00%
Net Present Value Of Equity Change		
+200	-10.71 %	20.00%
-200	3.51%	20.00%

The results of the simulation indicate that in an environment where interest rates rise or fall 100 and 200 basis points over a 12 month period, using June 30, 2008 amounts as a base case, and considering the increase in securities and deposit liabilities, and the volatile financial markets, the Corporation s change in net interest income would still be within the board mandated limits.

The information required by Item 3 has been disclosed in Item 7A of the Company s Annual Report to Shareholders on Form 10-K for the year ended December 31, 2007.

Item 4. Controls and Procedures

Based on their evaluation, as of the end of the period covered by this quarterly report, the Company s Chief Executive Officer and Chief Financial Officer have concluded the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. The Company s Chief Executive Officer and Chief Financial Officer have also concluded there have been no changes over the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, Farmers National Bank was named a defendant in a lawsuit filed in September 2005. The Plaintiff in the lawsuit alleges that Farmers National Bank is indebted to the Plaintiff for withdrawals from the Plaintiff s account by the Plaintiff s former agent, which the Plaintiff claims were unauthorized. The Plaintiff was seeking damages in excess of $423,000. During January 2008, the Plaintiff dismissed the case without prejudice.

Item 1A. Risk Factors

For information regarding factors that could affect the Corporation s results of operations, financial condition and liquidity, see the risk factors discussion provided under Part 1, Item 1A on Form 10-K for the fiscal year ended December 31, 2007. See also, Forward-Looking Statements included in Part 1, Item 2 of this Quarterly Report on Form 10-Q. There have been no material changes in risk factors since December 31, 2007.

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

Purchases of equity securities by the issuer.

On June 10, 2008, the Corporation announced the adoption of a stock repurchase program that authorizes the repurchase of up to 4.9% or approximately 638 thousand shares of its outstanding common stock in the open market or in privately negotiated transactions. This program expires in June 2009.

The following table summarizes the treasury stock purchased by the issuer during the second quarter of 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
April 1-30	16	$ 7.88	16	339,867
May 1-31	8,000	$ 8.42	8,000	331,867
June 1-30	14,180	$ 7.84	14,180	623,820
TOTAL	22,196	$ 8.05	22,196	623,820

Item 3. Defaults Upon Senior Securities

Not applicable.

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Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

During the second quarter of 2008, the Corporation recorded a non-operating after-tax charge of $363 thousand representing a reclassification and recognition of an other-than-temporary impairment of securities. The charge is directly related to $2.2 million of Fannie Mae Series F preferred stock that is held in the Securities portfolio.

Item 6. Exhibits

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

2. Not applicable.

3(i). The Articles of Incorporation, including amendments thereto for the Registrant. Incorporated by reference to Exhibit 4.1 to Farmers National Banc Corp s Form S-3 Registration Statement dated October 3, 2001. (File No. 0-12055).

3(ii). The Code of Regulations, including amendments thereto for the Registrant. Incorporated by reference to Exhibit 4.2 to Farmers National Banc Corp s Form S-3 Registration Statement dated October 3, 2001. (File No. 0-12055).

4. Incorporated by reference to initial filing.

10. Not applicable.

11. Refer to notes to unaudited consolidated financial statements.

15. Not applicable.

18. Not applicable.

19. Not applicable.

22. Not applicable.

23. Not applicable.

24. Not applicable.

31.a Certification of Chief Executive Officer (Filed herewith)

31.b Certification of Chief Financial Officer (Filed herewith)

32.a 906 Certification of Chief Executive Officer (Filed herewith)

32.b 906 Certification of Chief Financial Officer (Filed herewith)

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SIGNATURES

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

FARMERS NATIONAL BANC CORP.

Dated: August 8, 2008

/s/ Frank L. Paden
Frank L. Paden
President and Secretary

Dated: August 8, 2008

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

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EXHIBIT INDEX

Exhibit No.	Description
31.a	Certification of Chief Executive Officer (Filed herewith)
31.b	Certification of Chief Financial Officer (Filed herewith)
32.a	906 Certification of Chief Executive Officer (Filed herewith)
32.b	906 Certification of Chief Financial Officer (Filed herewith)