

FARMERS NATIONAL BANC CORP /OH/

Form 10-Q

May 08, 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 March 31, 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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  Accelerated filer  Non-accelerated filer  Smaller reporting company

(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  No   
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at April 30, 2008

Common Stock, No Par Value

13,093,225 shares

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

	(In Thousands of Dollars)	
	<b>March 31, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 27,438	\$ 25,022
Federal funds sold	25,133	6,083
TOTAL CASH AND CASH EQUIVALENTS	52,571	31,105
Securities available for sale	241,152	220,151
Loans	505,285	514,106
Less allowance for loan losses	5,457	5,459
NET LOANS	499,828	508,647
Premises and equipment, net	14,340	14,516
Bank owned life insurance	10,622	10,490
Other assets	12,964	13,327
TOTAL ASSETS	\$831,477	\$798,236
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 60,239	\$ 61,574
Interest-bearing	572,111	531,854
TOTAL DEPOSITS	632,350	593,428
Short-term borrowings	68,782	74,174
Long-term borrowings	50,604	52,455
Other liabilities	3,952	4,259
TOTAL LIABILITIES	755,688	724,316
Commitments and contingent liabilities		

Stockholders Equity:

Common Stock Authorized 25,000,000 shares; issued 15,026,019 in 2008 and 14,921,106 in 2007	92,556	91,741
Retained earnings	6,878	7,233
Accumulated other comprehensive income (loss)	1,071	(653)
Treasury stock, at cost; 1,932,791 shares in 2008 and 1,892,730 in 2007	(24,716)	(24,401)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>75,789</b>	<b>73,920</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$831,477</b>	<b>\$798,236</b>

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	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2008</b>	<b>2007</b>
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans, including fees	\$ 8,618	\$ 8,365
Taxable securities	1,577	1,852
Tax exempt securities	698	682
Dividends	143	144
Federal funds sold	162	28
TOTAL INTEREST AND DIVIDEND INCOME	11,198	11,071
<b>INTEREST EXPENSE</b>		
Deposits	4,172	4,129
Short-term borrowings	595	647
Long-term borrowings	597	578
TOTAL INTEREST EXPENSE	5,364	5,354
NET INTEREST INCOME	5,834	5,717
Provision for loan losses	110	60
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,724	5,657
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	644	680
Bank owned life insurance income	132	5
Security gains	194	552
Other operating income	425	360
TOTAL NONINTEREST INCOME	1,395	1,597
<b>NONINTEREST EXPENSES</b>		
Salaries and employee benefits	2,811	2,938
Occupancy and equipment	721	677
State and local taxes	211	227
Professional fees	144	147
Other operating expenses	1,119	1,129

	TOTAL NONINTEREST EXPENSES	5,006	5,118
	INCOME BEFORE INCOME TAXES	2,113	2,136
<b>INCOME TAXES</b>		389	327
	NET INCOME	\$ 1,724	\$ 1,809
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:</b>			
	Change in net unrealized gains (losses) on securities, net of reclassifications	1,724	158
	COMPREHENSIVE INCOME	\$ 3,448	\$ 1,967
	<b>NET INCOME PER SHARE-basic and diluted</b>	\$ 0.13	\$ 0.14
	<b>DIVIDENDS PER SHARE</b>	\$ 0.16	\$ 0.16

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)	
	Three Months Ended	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,724	\$ 1,809
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	110	60
Depreciation and amortization	265	321
Net amortization of securities	84	109
Security gains	(194)	(552)
Federal Home Loan Bank dividends	(56)	0
Increase in bank owned life insurance	(132)	(5)
Net change in other assets and liabilities	(746)	(2,198)
NET CASH FROM OPERATING ACTIVITIES	1,055	(456)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities and repayments of securities available for sale	15,115	12,409
Proceeds from sales of securities available for sale	6,417	2,710
Purchases of securities available for sale	(39,771)	(4,529)
Loan originations and payments, net	8,616	1,002
Additions to premises and equipment	(66)	(60)
NET CASH FROM INVESTING ACTIVITIES	(9,689)	11,532
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in deposits	38,922	(22,779)
Net change in short-term borrowings	(5,392)	1,379
Proceeds from Federal Home Loan Bank borrowings and other debt	5,000	10,000
Repayment of Federal Home Loan Bank borrowings and other debt	(6,851)	(4,876)
Repurchase of common stock	(315)	(904)
Cash dividends paid	(2,079)	(2,086)
Proceeds from dividend reinvestment	815	922
NET CASH FROM FINANCING ACTIVITIES	30,100	(18,344)
NET CHANGE IN CASH AND CASH EQUIVALENTS	21,466	(7,268)
Beginning cash and cash equivalents	31,105	34,038
Ending cash and cash equivalents	\$ 52,571	\$ 26,770



Supplemental cash flow information:

Interest paid	\$	5,384	\$	5,556
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Supplemental noncash disclosures:

Transfer of loans to other real estate	\$	93	\$	0
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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.

**Table of Contents****Securities:**

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

(In Thousands of Dollars)		Gross Unrealized	Gross Unrealized
<b>March 31, 2008</b>	Fair Value	Gains	Losses
U.S. Treasury and U.S. Government sponsored enterprises	\$ 46,977	\$ 703	\$ (19)
Mortgage-backed securities	118,969	876	(193)
Obligations of states and political subdivisions	72,543	992	(339)
	Total debt securities	2,571	(551)
	Equity securities	82	(455)
	<b>TOTALS</b>	<b>\$2,653</b>	<b>\$(1,006)</b>

(In Thousands of Dollars)		Gross Unrealized	Gross Unrealized
<b>December 31, 2007</b>	Fair Value	Gains	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	761	(1,788)
	Equity securities	66	(44)
	<b>TOTALS</b>	<b>\$827</b>	<b>\$(1,832)</b>

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 Corporation's equity securities include floating rate preferred stock issued by the Federal National Mortgage Association (FNMA). As of March 31, 2008, the Corporation believes the impairment of the Corporation's holdings of FNMA preferred stock to be temporary. The decline in value from December 31, 2007 appears to have been driven by a faster-than-expected decrease in the index on which the dividend on these shares is pegged. The dividend rate was reset in accordance with a pre-determined schedule on March 31, 2008. Management expects the value of these shares to recover as market interest rates increase in advance of the next scheduled dividend reset date of



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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).

**Assets and Liabilities Measured on a Recurring Basis**

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

(In Thousands)	March 31, 2008	Fair Value Measurements at March 31, 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	\$ 241,152	\$ 2,663	\$ 233,030	\$ 5,459

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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 quarter ended March 31, 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		(32)
Purchases		285
Transfers in and / or out of Level 3		1,444
Ending balance, March 31, 2008	\$	5,459

**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)	March 31, 2008	Fair Value Measurements at March 31, 2008 Using Significant		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 141			\$ 141

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 \$960 thousand, with a valuation allowance of \$819 thousand. The allowance for loan loss is based on management's judgment 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 March 31, 2008.

**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

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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 period ending March 31, 2008 and 2007:

(In Thousands, except Per Share Data)	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Total Assets	\$831,477	\$803,280
Net Income	\$ 1,724	\$ 1,809
Basic and Diluted Earnings Per Share	\$ .13	\$ .14
Return on Average Assets (Annualized)	.85%	.91%
Return on Average Equity (Annualized)	9.29%	9.70%
Efficiency Ratio (tax equivalent basis)	66.27%	70.99%
Equity to Asset Ratio	9.11%	9.48%
Dividends to Net Income (Year-to-date)	120.53%	115.31%
Net Loans to Assets	60.11%	62.44%
Loans to Deposits	79.91%	84.94%

Through a combination of monitoring funding costs and re-pricing earning assets, the Company was able to increase net interest margin by six basis points over the past twelve months. In recent quarters, volatility in the credit markets and actions of the Federal Reserve Board caused change in the slope of the yield curve, which increased the spread between long-term and short-term market interest rates. Despite this rate adjustment, the interest rate environment and local economic conditions continue to present challenges with ongoing competition for loans and deposits. In addition, the Corporation is focused on improving operating processes to be more efficient in order to improve the non-interest income stream and control non-interest expenses.

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

**Table of Contents****Average Balance Sheets and Related Yields and Rates**

(Dollar Amounts in Thousands)

	Three Months Ended March 31, 2008			Three Months Ended March 31, 2007		
	AVERAGE		RATE (1)	AVERAGE		RATE (1)
	BALANCE	INTEREST		BALANCE	INTEREST	
<b>EARNING ASSETS</b>						
Loans (3) (4) (5)	\$507,868	\$ 8,700	6.89%	\$504,433	\$ 8,454	6.80%
Taxable securities	149,371	1,577	4.25	178,476	1,852	4.21
Tax-exempt securities (5)	71,374	1,046	5.89	69,983	1,026	5.95
Equity Securities (2) (5)	8,178	164	8.07	10,315	164	6.45
Federal funds sold	22,060	162	2.95	2,117	28	5.36
Total earning assets	758,851	11,649	6.17	765,324	11,524	6.11
<b>NONEARNING ASSETS</b>						
Cash and due from banks	22,826			22,416		
Premises and equipment	14,453			14,710		
Allowance for Loan Losses	(5,486)			(5,585)		
Unrealized gains (losses) on securities	483			(2,423)		
Other assets (3)	20,636			11,793		
Total Assets	\$811,763			\$806,235		
<b>INTEREST-BEARING LIABILITIES</b>						
Time deposits	\$285,836	\$ 3,324	4.68%	\$273,082	\$ 3,075	4.57%
Savings deposits	163,272	725	1.79	175,259	915	2.12
Demand deposits	96,264	123	0.51	97,961	139	0.58
Short term borrowings	74,399	595	3.22	70,620	647	3.72
Long term borrowings	52,136	597	4.61	49,581	578	4.73
Total Interest-Bearing Liabilities	671,907	5,364	3.21	666,503	5,354	3.26
<b>NONINTEREST-BEARING LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Demand deposits	60,070			58,919		
Other Liabilities	5,164			5,191		
Stockholders equity	74,622			75,622		



Total Liabilities and Stockholders Equity	<b>\$811,763</b>		\$806,235	
Net interest income and interest rate spread	<b>\$ 6,285</b>	<b>2.96%</b>	\$ 6,170	2.85%
Net interest margin		<b>3.33%</b>		3.27%

(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 \$339 thousand and \$404 thousand for 2008 and 2007 respectively.

(5) For 2008, adjustments of \$82 thousand, \$348 thousand, and \$21 thousand respectively are made to tax equate income

on tax exempt  
loans, tax  
exempt  
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dividends  
received  
deduction on  
equity  
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2007,  
adjustments of  
\$89 thousand,  
\$344 thousand,  
and \$20  
thousand  
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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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**Taxable equivalent net interest income.** Taxable equivalent net interest income for the first three months ended March 31, 2008 totaled \$6.285 million, an increase of \$115 thousand or 1.86% compared to the quarter ended March 31, 2007. The yield on earning assets increased by 6 basis points and the cost of interest-bearing liabilities decreased by 5 basis points over the past 12 months to positively impact the net interest margin. The net interest margin and net interest income continues to be affected by aggressive competitive pricing in our market areas. The effect of these competitive pressures was mitigated somewhat by the greater proportion of interest-earning assets being relatively higher-yielding loans and tax-exempt securities in the current year-to-date period compared to the prior year.

**Noninterest Income.** Total noninterest income for the three month period ended March 31, 2008 decreased by \$202 thousand or 12.65% compared to the same period in 2007. This decline is due mainly to a \$358 thousand decrease in gains on the sale of investment securities.

**Noninterest Expense.** Noninterest expense was \$5.01 million for the first three months of 2008 compared to \$5.12 million for the same period in 2007. This amounts to a decrease of 2.19%. The slight decrease is the result of savings in salaries and employee benefits.

The efficiency ratio decreased to 66.27% for the first three months of 2008 compared to 70.99% for the first three 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 \$389 thousand for the first three months of 2008 and \$327 thousand for the first three months of 2007, an increase of \$62 thousand or 18.96%. The effective tax rate for the first three months of 2008 was 18.41% compared to 15.31% for the same time in 2007. The prior period's expense was impacted favorably by an adjustment to the income tax liability.

**Other Comprehensive Income.** For the first three months of 2008, the change in net unrealized gains on securities, net of reclassifications, resulted in a gain of \$1.724 million compared to a gain of \$158 thousand for the same period in 2007. The change was due to debt security market recoveries after several interest rate decreases.

**Financial Condition**

Total assets increased \$33.241 million or 4.16% since December 31, 2007, as the Corporation also saw an increase in deposit balances. Capital ratios remain strong, as shown by the ratio of equity to total assets at March 31, 2008 of 9.11%.

**Securities.** Securities available for sale increased \$21.00 million. Security purchases were funded by the \$38.92 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 \$2.65 million increase in the net unrealized gains (losses) on securities during the first quarter of 2008.

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**Loans.** Gross loans decreased \$8.82 million since December 31, 2007. Commercial Real Estate loans decreased \$5.06 million or 2.63% since December 31, 2007. Indirect installment loans also declined, down \$6.31 million or 6.87%. These declines were partially offset by a \$4.31 million increase in commercial and industrial loans. On a fully tax equivalent basis, loans contributed 74.68% of total interest income for the three months ended March 31, 2008 and 73.36% for the three months ended March 31, 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)

	3/31/08	12/31/07	9/30/07	6/30/07	3/31/07
Nonperforming loans	\$ 2,347	\$ 2,361	\$ 2,890	\$ 2,567	\$ 2,458
Nonperforming loans as a % of total loans	.46%	.46%	.56%	.50%	.48%
Allowance for loan losses	\$ 5,457	\$ 5,459	\$ 5,591	\$ 5,593	\$ 5,556
Allowance for loan losses as a % of loans	1.08%	1.06%	1.09%	1.09%	1.10%
Allowance for loan losses as a % of nonperforming loans	232.51%	231.22%	193.46%	217.88%	226.04%

The allowance for loan losses as a percentage of loans at March 31, 2008 is 1.08%, up from the December 31, 2007 amount of 1.06%. The provision for loan losses for the first three months of 2008 and 2007 was \$110 thousand and \$60 thousand, respectively. Net charge-offs totaled \$112 thousand for the first three months of 2008 up from \$98 thousand for the first three months of 2007. The provision closely tracks net charge-offs. During 2008 approximately 79% of gross charge-offs have occurred in the indirect loan portfolio compared to 73% in 2007. Non-performing loans to total loans have remained the same at .46% from December 31, 2007 to March 31, 2008. The ratio of the allowance for loan losses (ALLL) to non-performing loans is 233%, improving slightly since the end of 2007.

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 \$38.92 million since December 31, 2007. Balances in the Corporation's time deposits increased \$24.94 million or 9.09% between December 31, 2007 and March 31, 2008. Money market accounts increased \$18.36 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 \$7.24 million or 5.72% since December 31, 2007. The Corporation used some of the increase in deposits to reduce securities sold under repurchase agreements, which decreased \$5.25 million during the three-month period.

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**Capital Resources.** Total stockholders' equity increased from \$73.92 million at December 31, 2007 to \$75.79 million at March 31, 2008. During the first three months of 2008, the mark to market adjustment of securities increased accumulated other comprehensive income by \$1.72 million and the repurchase of treasury stock decreased stockholders' equity by \$315 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 March 31, 2008 the Corporation's total risk-based capital ratio stood at 13.88%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 12.85% and 8.46%, respectively. Management believes, as of March 31, 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 \$9.69 million compared to \$11.53 million provided by investing activities for the same period in 2007. Purchases of securities available for sale amounted to \$39.77 million in 2008 compared to \$4.53 million in 2007. Net loans decreased by \$8.62 million during this year's first three-month period and decreased \$1.00 million over the same three-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.

The primary financing activities of the Company are obtaining deposits, repurchase agreements and other borrowings. Net cash provided by financing activities amounted to \$30.10 million for the first three months of 2008 compared to \$18.34 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 \$38.92 million for the three-month period ended March 31, 2008 compared to a \$22.78 million decrease for the same period in 2007.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

The Company monitors its exposure to interest rate risk on a quarterly basis through simulation analysis which measures the impact changes in interest rates can have on net income. The simulation technique analyzes the effect of a presumed 100 and 200 basis points shift in interest rates and takes into account prepayment speeds on amortizing financial instruments, loan and deposit volumes and rates, non-maturity deposit assumptions and capital requirements. 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 March 31, 2008 amounts as a base case, and considering the increase in deposit liabilities and the volatile financial markets, the Company'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.

**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.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Purchases of equity securities by the issuer.**

On June 12, 2007, 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 2008.

The following table summarizes the treasury stock purchased by the issuer during the first 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
January 1-31	17	\$7.97	17	379,927
February 1-29	20,000	\$7.65	20,000	359,927
March 1-31	20,044	\$8.04	20,044	339,883
TOTAL	40,061	\$7.85	40,061	339,883

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

(a) Farmers National Banc Corp's annual meeting of shareholders was held on March 27, 2008.

(b & c) Proxies were solicited by Farmers National Banc Corp's management pursuant to Regulation 14 under the Securities Exchange Act of 1934.

Elected to serve as director for a three year term were the Board of Director's nominees:

	<b>Votes For</b>	<b>Votes Against</b>	
<b>Elected Director</b>			
Joseph D. Lane	8,893,988	280,213	
Ronald V. Wertz	8,942,627	247,232	
<b>Continuing Director</b>			<b>Term Expiring</b>
Benjamin R. Brown			March 2009
Anne F. Crawford			March 2009
James R. Fisher			March 2009
Ralph D. Macali			March 2010
Frank L. Paden			March 2010
Earl R. Scott			March 2010

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Amendment to the code of regulations: The annual meeting of the shareholders to be held in the month of April each year.

<b>Votes For Amendment</b>	<b>Votes Against Amendment</b>
9,140,504	148,306

**Item 5. Other Information**

Not applicable.

**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: May 8, 2008

/s/Frank L. Paden

Frank L. Paden

President and Secretary

Dated: May 8, 2008

/s/Carl D. Culp

Carl D. Culp

Executive Vice President

and Treasurer