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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Quarterly Report Under Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarter ended June 30, 2001

Commission file number 2-80339

FARMERS NATIONAL BANC CORP.

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of
incorporation or organization)

34-1371693

(I.R.S. Employer Identification No)

20 South Broad Street
Canfield, OH 44406

(Address of principal executive offices)

44406

(Zip Code)

(330) 533-3341

(Registrant's telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

<u>Class</u>	<u>Outstanding at June 30, 2001</u>
Common Stock, No Par Value	11,796,208 shares

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CONSOLIDATED BALANCE SHEETS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

(In Thousands of Dollars)		
	June 30, 2001	December 31, 2000
ASSETS		
Cash and due from banks	\$ 23,615	\$ 23,350
Federal funds sold	20,260	11,358
TOTAL CASH AND CASH EQUIVALENTS	43,875	34,708
Long-term interest bearing deposits	0	99
Securities available for sale	133,290	127,761
Loans	441,381	450,711
Less allowance for credit losses	6,399	6,115
NET LOANS	434,982	444,596
Premises and equipment, net	12,497	12,549
Other assets	6,223	6,409
	\$630,867	\$626,122
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits (all domestic):		
Noninterest-bearing	\$ 46,456	\$ 48,935
Interest-bearing	441,708	419,401
TOTAL DEPOSITS	488,164	468,336
U. S. Treasury interest-bearing demand note	786	1,009
Securities sold under repurchase agreements	38,995	39,099
Federal Home Loan Bank advances	25,832	43,575
Other liabilities and deferred credits	3,025	3,270
TOTAL LIABILITIES	556,802	555,289
Stockholders Equity:		
Common Stock — Authorized 25,000,000 shares; issued and outstanding 11,796,208 in 2001 and 11,604,252 in 2000	51,047	49,451
Retained earnings	22,800	22,226
Accumulated other comprehensive income	1,434	372
Treasury stock, at cost; 87,861 shares in 2001 and 87,835 in 2000	(1,216)	(1,216)
TOTAL STOCKHOLDERS EQUITY	74,065	70,833
	\$630,867	\$626,122

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

	(In Thousands except Per Share Data)			
	For the Three Months Ended		For the Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
INTEREST INCOME				
Interest and fees on loans	\$ 9,371	\$ 9,219	\$18,790	\$18,327
Interest and dividends on securities:				
Taxable interest	1,409	1,533	2,786	2,928
Nontaxable interest	316	290	602	589
Dividends	222	105	458	165
Interest on federal funds sold	261	238	434	505
TOTAL INTEREST INCOME	11,579	11,385	23,070	22,514
INTEREST EXPENSE				
Deposits	4,464	4,259	8,956	8,569
Borrowings	858	962	1,913	1,720
TOTAL INTEREST EXPENSE	5,322	5,221	10,869	10,289
NET INTEREST INCOME	6,257	6,164	12,201	12,225
Provision for credit losses	270	360	540	720
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	5,987	5,804	11,661	11,505
OTHER INCOME				
Service charges on deposit accounts	549	504	1,026	905
Investment security gains (losses)	17	(26)	25	(26)
Gain on sale of mortgage loans, net	0	1	0	3
Other operating income	317	179	553	408
TOTAL OTHER INCOME	883	658	1,604	1,290
OTHER EXPENSES				
Salaries and employee benefits	2,197	2,188	4,379	4,459
Net occupancy expense of premises	255	216	529	487
Furniture and equipment expense, including depreciation	292	230	587	528
Intangible and other taxes	212	178	427	378
Other operating expenses	1,187	1,469	2,247	2,758
TOTAL OTHER EXPENSES	4,143	4,281	8,169	8,610
INCOME BEFORE FEDERAL INCOME TAXES	2,727	2,181	5,096	4,185
FEDERAL INCOME TAXES	805	630	1,493	1,239
NET INCOME	\$ 1,922	\$ 1,551	\$ 3,603	\$ 2,946
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gains (losses) on securities	101	153	1,062	(14)
COMPREHENSIVE INCOME	\$ 2,023	\$ 1,704	\$ 4,665	\$ 2,932
* NET INCOME PER SHARE	\$ 0.17	\$ 0.14	\$ 0.31	\$ 0.26

* Restated to reflect weighted average shares outstanding adjusted for stock dividends and merger accounted for as pooling of interests.

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

	(In Thousands of Dollars)	
	Six Months Ended	
	June 30,	June 30,
	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	\$ 24,060	\$ 23,344
Fees and commissions received	1,568	1,304
Interest paid	(11,039)	(10,471)
Cash paid to suppliers and employees	(8,185)	(8,476)
Income taxes paid	(1,529)	(1,346)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,875	4,355
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (Increase) in interest-bearing time deposits maturing in more than 90 days	99	(100)
Proceeds from maturities and repayments of securities available for sale	14,975	11,868
Proceeds from sales of securities available for sale	6,050	1,200
Purchases of securities available for sale	(25,187)	(26,128)
Net decrease (increase) in loans made to customers	8,410	(4,162)
Purchases of premises and equipment	(352)	(253)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,995	(17,575)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	19,923	(7,081)
Net increase (decrease) in short-term borrowings	(356)	3,586
Net increase (decrease) in Federal Home Loan Bank borrowings	(17,743)	8,271
Net increase in federal funds purchased	0	3,400
Purchase of Treasury Stock	0	(1,083)
Dividends paid	(3,123)	(1,971)
Proceeds from sale of common stock	1,596	1,470
NET CASH PROVIDED BY FINANCING ACTIVITIES	297	6,592
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,167	(6,628)
CASH AND CASH EQUIVALENTS		
Beginning of period	34,708	41,026
End of period	\$ 43,875	\$ 34,398
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATIONS		
Net income	\$ 3,603	\$ 2,946
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	376	424
Amortization and accretion	1,025	952
Provision for credit losses	540	720
Gain (Loss) on sale of investment securities	(25)	26
Other	(644)	(713)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,875	\$ 4,355

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management Representation:

The financial statements for June 30, 2001 and 2000 have been prepared by management without audit and, therefore, have not been certified by our Independent Certified Public Accountants.

In the opinion of the management of the registrant, the accompanying consolidated financial statements for the six month period ending June 30, 2001 and 2000 include all adjustments, consisting of only normal recurring adjustments necessary for a fair statement of the results for the periods.

	(Thousands of Dollars)
Stockholders Equity	Six Months Ended June 30, 2001
Common Stock	
Balance 1/1/01	49,451
191,981 shares sold	<u>1,596</u>
Balance 6/30/01	<u>51,047</u>
Retained Earnings	
Balance 1/1/01	22,226
Net Income	3,603
Dividends Declared: \$.26 Cash dividends on common stock	<u>(3,029)</u>
Balance 6/30/01	<u>22,800</u>
Accumulated Other Comprehensive Income	
Balance 1/1/01	372
Net change in unrealized appreciation on debt securities, net of income taxes	<u>1,062</u>
Balance 6/30/01	<u>1,434</u>
Treasury Stock, At Cost	
No changes	<u>(1,216)</u>
Total Stockholders Equity at 6/30/01	<u>74,065</u>

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

Forward Looking Statements

The following financial review presents an analysis of the assets and liability structure of the Corporation and a discussion of the results of operations for each of the periods presented in this quarterly report of liquidity, capital and credit quality. Certain statements in this report that relate to Farmers National Banc Corp.'s plans, objectives, or future performance may be deemed to be forward-looking statements within the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations. Actual strategies and results in future periods may differ materially from those currently expected because of various risks and uncertainties.

Among the important factors that could cause actual results to differ materially are interest rates, changes in the mix of the company's business, competitive pressures, general economic conditions and the risk factors detailed in the company's other periodic reports and registration statements filed with the Securities and Exchange Commission.

Results of Operations

The Corporation's net income for the first six months of 2001 was \$3.603 million, or \$.31 per share, which is a 22.3% increase compared with the \$2.946 million, or \$.26 per share earned during the same period last year. Return on average assets and return on average equity for the first six months of 2001 were 1.15% and 10.05% respectively, compared to .97% and 8.89% for the same period in 2000.

The increase in net income for the first six months of 2001 was the result of increases in interest income and other income, and lower levels of noninterest expense. The Corporation's total interest income increased \$556 thousand, or 2.47% from \$22.514 million for 2000 to \$23.07 million for the same period in 2001. Most of this increase is a result of the growth in loans outstanding. Increasing demand in the Corporation's installment loan products has increased average balances in the total loan portfolio by 2.96% over the past twelve months. This growth has contributed to the increase in loan income of \$463 thousand or 2.53%. Funds not used for loan growth have been used to purchase investment securities. The corporation's average balance of investment securities has increased 6.39% from June, 2000 to June, 2001. This growth has increased income on securities by \$93 thousand or 2.22% over the same time period. Interest expense on deposits and borrowings is 5.64% higher for the first six months of 2001 compared to the first six months of 2000. This is the result of both an increase of \$387 thousand in interest expense on deposits and an increase of \$193 in interest expense on borrowings. The bank has experienced an increase in the average rate paid on time deposits, from 5.49% in 2000 to 5.83% in 2001. The Corporation has borrowed from the Federal Home Loan Bank to fund some new commercial real estate loans.

Other income increased 24.34% from \$1.29 million in 2000 to \$1.604 million in 2001. This growth is the result of both an increase in service charges related to deposit accounts and an increase in other operating income. The Corporation's total other expenses for the first six months of 2001 decreased 5.12% from \$8.61 million in 2000 to \$8.169 million in 2001. The decrease in other operating expenses is due primarily to the acquisition of Security Financial Corporation on November 30, 2000. The merger provided cost savings through the consolidation of operations. Management will continue to closely monitor noninterest expenses.

Results of Operations (Continued)

On November 30, 2000, Security Financial Corp. merged with and into Farmers National Banc Corp. The merger was accounted for under the pooling-of-interests method. The consolidated financial statements for 2000 have been reclassified to conform with the presentation for 2001. Such reclassifications had no effect on net results from operations.

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.

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

Cash flows generated from operating activities increased to \$4.875 million compared to \$4.355 million for the same period in 2000. This increase of \$520 thousand is mainly the result of an increase in net interest received. Net cash flows provided by investing activities amounted to \$3.995 million in 2001 compared to \$17.575 million used in investing activities for the same period in 2000. Most of the current period's increase came from repayments of loans made to customers.

Net cash flows provided by financing activities were \$297 thousand in 2001 compared to \$6.592 million in 2000. In 2001, \$19.923 million was generated from increases in deposits and \$17.743 million was used to repay Federal Home Loan Bank borrowings.

Capital Resources

The capital management function is a continuous process which consists of providing capital for both the current financial position and the anticipated future growth of the Corporation. As of June 30, 2001, the corporation's total risk-based capital ratio stood at 17.8%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 16.52% and 11.37%, respectively. Regulations established by the Federal Deposit Insurance Corporation Improvement Act require that for a bank to be considered well capitalized, it must have a total risk-based capital ratio of 10%, a Tier I risk-based capital ratio of 6% and a Tier I leverage ratio of 5%.

Loan Portfolio

The following shows the composition of loans at the dates indicated:

	(In Thousands of Dollars)	
	June 30, 2001	Dec. 31, 2000
Commercial, financial and agricultural	19,624	17,916
Real Estate — mortgage	259,166	267,529
Installment loans to individuals	162,591	165,266
Total Loans	441,381	450,711

The following table sets forth aggregate loans in each of the following categories for the dates indicated:

	(In Thousands of Dollars)	
	June 30, 2001	Dec. 31, 2000
Loans accounted for on a nonaccrual basis	959	664
Loans contractually past due 90 days or more as to interest or principal payments (not included in nonaccrual loans above)	1,393	669
Loans considered troubled debt restructurings (not included in nonaccrual or contractually past due above)	0	0

Management knows of no loans not included in the table above where serious doubt exists as to the ability of the borrower to comply with the current loan repayment terms.

The following shows the amounts of contracted interest income and interest income reflected in income on loans accounted for on a nonaccrual basis and loans considered troubled debt restructuring for the periods indicated:

	(In Thousands of Dollars)	
	June 30, 2001	Dec. 31, 2000
Gross interest that would have been recorded if the loans had been current in accordance with their original terms	28	107
Interest income included in income on the loans	16	4

Risk Elements (Continued)

A loan is placed on a nonaccrual basis whenever sufficient information is received to question the collectibility of the loan. Generally, once a loan is placed on a nonaccrual basis, interest that may be accrued and not collected on the loan is charged against earnings.

As of June 30, 2001, there were no concentrations of loans exceeding 10% of total loans which are not disclosed as a category of loans. As of that date also, there are no other interest-earning assets that are either nonaccrual, past due or restructured.

Summary of Credit Loss Experience

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

	(In Thousands of Dollars)	
	Six Months Ended June 30, 2001	Year Ended Dec. 31, 2000
Balance at beginning of period	6,115	5,778
Loan losses:		
Commercial, financial & agricultural	(32)	(50)
Real estate — mortgage	(19)	(343)
Installment loans to individuals	(461)	(1,250)
	(512)	(1,643)
Recoveries on previous loan losses:		
Commercial, financial & agricultural	0	23
Real estate — mortgage	6	8
Installment loans to individuals	250	1,084
	256	1,115
Net loan losses	(256)	(528)
Provision charged to operations (1)	540	865
Balance at end of period	6,399	6,115
Ratio of net credit losses to average net loans outstanding	.12%	.12%

Summary of Credit Loss Experience (cont'd)

(1) The provision for possible credit losses charged to operating expense 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.

The allowance for possible credit losses has been allocated according to the amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within the following categories of loans as of the dates indicated.

Types of Loans	(In Thousands of Dollars)	
	June 30, 2001	Dec. 31, 2000
Commercial, financial & agricultural	1,828	549
Real estate — mortgage	1,878	2,878
Installment	2,693	2,688
Total	6,399	6,115

The allocation of the allowance as shown above should not be interpreted as an indication that charge-offs in 2001 will occur in the same proportions or that the allocation indicates future charge-off trends. Furthermore, the portion allocated to each loan category is not the total amount available for future losses that might occur within such categories since the total allowance is a general allowance applicable to the entire portfolio.

The percentage of loans in each category to total loans is summarized as follows:

Types of Loans	June 30, 2001	Dec. 31, 2000
Commercial, financial & agricultural	4.5%	4.0%
Real Estate — mortgage	58.7%	59.3%
Installment loans to individuals	36.8%	36.7%
	100.0%	100.0%

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There are no material changes from the end of the preceding fiscal year that would cause additional disclosure of the bank’s exposure to market risk.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the registrant or its subsidiary is a party, or of which any of their property is the subject, except proceedings which arise in the ordinary course of business. In the opinion of management, pending legal proceedings will not have a material effect on the consolidated financial position of the registrant and its subsidiary.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

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

2. Not applicable.

3(i). Not applicable.

3(ii). Not applicable.

4. The registrant agrees to furnish to the Commission upon request copies of all instruments not filed herewith defining the rights of holders of long-term debt of the registrant and its subsidiaries.

10. Not applicable.

11. Not applicable.

15. Not applicable.

18. Not applicable.

19. Not applicable.

22. Not applicable.

23. Not applicable.

24. Not applicable.

99. Not applicable.

(b) - Reports on Form 8-K

A Form 8-K was filed by the Corporation on June 25, 2001. The item reported was classified as Item 5, Other Events, and read as follows:

On June 12, 2001, Farmers National Banc Corp. (the “Registrant”) announced that its Board of Directors has reinstated the Registrant’s stock repurchase program. Under the stock repurchase program, the Registrant is authorized to repurchase shares of its outstanding common stock in the open market or in privately negotiated transactions at appropriate times to allow it to enhance the value of its stock for shareholders and to manage its capital. The Registrant’s stock repurchase program was previously suspended by the Registrant’s Board of Directors in contemplation of the merger of Security Financial Corp. with and into the Registrant, which was consummated on November 30, 2000.

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, 2001

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

Dated: August 8, 2001

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