TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended June 30, 2001

Commission File Number 0-14773

NATIONAL BANCSHARES CORPORATION

Ohio	34-1518564
State of incorporation	IRS Employer Identification No.

112 West Market Street, Orrville, Ohio 44667
Address of principal executive offices

Registrant's telephone number: (330) 682-1010

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 registrant's classes of common stock, as of August 1, 2001:

Common Stock, Without Par Value: 2,226,668 Shares Outstanding

National Bancshares Corporation

Index

NATIONAL BANCSHARES CORPORATION
CONSOLIDATED BALANCE SHEETS (Unaudited)

	6/30/01	12/31/00
ASSETS		
Cash and due from banks	$ 6,728,913	$ 7,077,797
Federal funds sold	4,250,000	8,135,000
Total cash and cash equivalents	10,978,913	15,212,797
Interest bearing deposits with banks	1,991,679	1,989,440
Securities available for sale (at fair value)	51,322,092	20,168,513
Securities held to maturity	16,026,044	47,852,539
Fair value June 30, 2001 - $16,586,000; December 31, 2000 - $48,518,000		
Federal bank stock	1,001,400	975,800
Loans:		
Commercial	47,390,795	43,635,606
Real estate mortgage	55,257,509	55,820,790
Installment	8,886,319	9,698,848
Total loans	111,534,623	109,155,244
Less: Unearned income	206,212	260,446
Allowance for loan losses	1,344,812	1,343,124
Loans, net	109,983,599	107,551,674
Accrued interest receivable	1,448,361	1,492,613
Premises and equipment	2,927,129	2,621,483
Other assets	2,627,634	2,927,847
TOTAL	$198,306,851	$200,792,706
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	$ 27,154,338	$ 28,236,689
Savings and N.O.W.s	72,957,190	70,400,876
Time	59,349,338	63,376,020
Total deposits	159,460,866	162,013,585
Securities sold under repurchase agreements	3,052,324	3,949,485
Federal reserve note account	1,000,000	615,298
Federal Home Loan Bank advances	2,836,980	3,446,086
Accrued interest payable	731,606	840,304
Other liabilities	1,069,264	988,619
Total liabilities	168,151,040	171,853,377
SHAREHOLDERS' EQUITY		
Common stock — without par value; 6,000,000 shares authorized; 2,289,528 shares issued	11,447,640	11,447,640
Additional paid-in capital	4,689,800	4,689,800
Retained earnings	14,893,148	14,292,805
Accumulated other comprehensive income (loss)	639,517	(127,139)
Less: Treasury shares (at cost): 62,860 and 51,384 shares as of June 30, 2001 and December 31, 2000	(1,514,294)	(1,363,777)
Total shareholders' equity	30,155,811	28,939,329
TOTAL	$198,306,851	$200,792,706

See note to consolidated financial statements

NATIONAL BANCSHARES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)

	Three months ended		Six months ended	
	6/30/01	**6/30/00**	**6/30/01**	**6/30/00**
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$2,242,458	$2,280,906	$4,628,596	$4,436,796
Federal funds sold	105,046	84,776	266,392	134,898
Securities:				
Taxable	813,754	851,214	1,627,257	1,714,186
Nontaxable	259,310	286,486	523,035	573,567
Total interest and dividend income	3,420,568	3,503,382	7,045,280	6,859,447
INTEREST EXPENSE:				
Deposits	1,281,672	1,141,685	2,617,142	2,235,832
Short-term borrowings	25,355	37,739	67,363	71,434
Federal Home Loan Bank advances	47,127	100,364	99,045	190,090
Total interest expense	1,354,154	1,279,788	2,783,550	2,497,356
Net interest income	2,066,414	2,223,594	4,261,730	4,362,091
PROVISION FOR LOAN LOSSES	15,000	25,000	30,000	62,500
Net interest income after provision for loan losses	2,051,414	2,198,594	4,231,730	4,299,591
NONINTEREST INCOME				
Checking account fees	162,818	140,014	312,771	275,140
Gain on sale of loans	16,250	—	43,750	—
Securities gains, net	97,003	—	97,003	—
Other	73,138	66,209	146,326	134,009
Total noninterest income	349,209	206,223	599,850	409,149
NONINTEREST EXPENSE:				
Salaries and employee benefits	887,688	842,092	1,751,177	1,672,896
Data processing fees	159,757	176,065	312,107	356,604
Net occupancy expense	52,342	52,823	116,147	110,749
Depreciation — furniture and fixtures	66,254	81,492	133,567	162,746
Franchise taxes	77,756	75,547	160,256	152,774
Maintenance and repairs	49,424	44,036	93,319	85,842
Other expenses	339,755	369,926	683,921	687,164
Total noninterest expense	1,632,976	1,641,981	3,250,494	3,228,775
INCOME BEFORE INCOME TAXES	767,647	762,836	1,581,086	1,479,965
Income tax expense	172,502	161,919	359,762	307,612
NET INCOME	595,145	600,917	1,221,324	1,172,353
OTHER COMPREHENSIVE INCOME:				
Unrealized appreciation (depreciation) in fair value of securities available for sale, net of tax	184,401	33,741	696,311	(203,047)
Reclassification adjustment for realized gains included in earnings, net of tax	(64,022)		(64,022)	
Cumulative effect of adopting SFAS No. 133	—	—	134,368	—
COMPREHENSIVE INCOME	$ 715,524	$ 634,658	$1,987,981	$ 969,306
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	2,233,212	2,241,338	2,236,060	2,240,308
BASIC EARNINGS PER COMMON SHARE	$ 0.27	$ 0.27	$ 0.55	$ 0.52
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.13	$ 0.12	$ 0.26	$ 0.24

See note to consolidated financial statements

NATIONAL BANCSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	6/30/01	**6/30/00**
Cash Flows From Operating Activities:		
Net Income	$ 1,221,324	$ 1,172,353
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities		
Depreciation and Amortization, net of Accretion	110,037	192,494
Federal Home Loan Bank Stock Dividend	(25,600)	(22,800)
Gain on Sale of Loans	(43,750)	—
Provision for Loan Losses	30,000	62,500
Net Security Gains	(97,003)	—
Proceeds from Sale of Loans	1,598,277	—
Changes in Other Assets and Liabilities	(80,942)	(63,380)
Net Cash From Operating Activities	2,712,343	1,341,167
Cash Flows From Investing Activities:		
Securities Held to Maturity		
Proceeds from Maturities and Repayments	1,884,750	2,113,180
Purchases	(504,500)	(169,500)
Securities Available for Sale		
Proceeds from Maturities and Repayments	12,934,612	500,000
Proceeds from Sales	134,171	—
Purchases	(12,418,244)	—
Capital Expenditures	(490,909)	(57,319)
Net Change in Loans to Customers	(4,016,452)	(6,338,691)
Net Cash From Investing Activities	(2,476,572)	(3,952,330)
Cash Flows from Financing Activities:		
Net Change in Demand and Savings Accounts	1,473,963	(3,753,924)
Net Change in Time Deposits	(4,026,682)	1,871,451
Net Change in Short-Term Borrowings	(512,459)	1,383,819
Proceeds from Federal Home Loan Bank Advances	—	1,000,000
Repayments on Federal Home Loan Bank Advances	(609,106)	(570,875)
Dividends Paid	(604,468)	(671,462)
Dividends Reinvested	47,351	132,110
Purchase of Treasury Shares	(238,254)	(91,875)
Net Cash From Financing Activities	(4,469,655)	(700,756)
Net Change in Cash and Cash Equivalents	(4,233,884)	(3,311,919)
Beginning Cash and Cash Equivalents	15,212,797	17,308,351
Ending Cash and Cash Equivalents	$ 10,978,913	$13,996,432
Supplemental Disclosures		
Cash Paid for Interest	$ 2,892,248	$ 2,427,728
Cash Paid for Income Taxes	$ 410,000	$ 250,000
Non-cash Items:		
Securities Transferred from Held to Maturity to Available for Sale	$ 134,368	—

See note to consolidated financial statements.

Note 1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of National Bancshares Corporation (the "Company") and its wholly owned subsidiary, First National Bank, Orrville, Ohio (the "Bank"). All significant intercompany transactions and balances have been eliminated. The consolidated balance sheet as of June 30, 2001, the consolidated statements of income and comprehensive income for the three and six month periods ended June 30, 2001 and 2000, and the consolidated statements of cash flows for the six month periods ended June 30, 2001 and 2000 have been prepared by the Company without audit. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, but do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and footnotes in the Company's annual report on Form 10-K for the year ended December 31, 2000. Operating results for the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

To prepare financial statements in conformity with generally accepted accounting principles, 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, fair values of financial instruments and fair values of certain securities are particularly subject to change.

The Company provides a broad range of financial services to individuals and companies in northern 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.

In January 2001, the Company adopted a new accounting standard, Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137. As a result, the Company transferred securities with an amortized cost of approximately $30.5 million and a fair value of approximately $30.7 million from the held to maturity to the available for sale category to allow hedging of those securities in the future if deemed beneficial. The transfer had a positive impact on the company's other comprehensive income and shareholders' equity, net of taxes, of approximately $134 thousand.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations". SFAS No. 141 requires all business combinations within its scope to be accounted for using the purchase method, rather than the pooling-of-interests method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The adoption of this Statement will only impact the Company's financial statements if it enters into a business combination.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which addresses the accounting for such assets arising from prior and future business combinations. Upon the adoption of this Statement, goodwill arising from business combinations will no longer be amortized, but rather will be assessed regularly for impairment, with any such impairment recognized as a reduction to earnings in the period identified. Other identified intangible assets, such as core deposit intangible assets, will continue to be amortized over their estimated useful lives. The Company is required to adopt this Statement on January 1, 2002 and early adoption is not permitted. The Company has not yet assessed the impact of this Statement on its financial statements.

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

FORWARD-LOOKING INFORMATION

The Company cautions that any forward-looking statements contained in this report, in a report incorporated by reference to this report or made by management of the Company, involve risk and uncertainties, and are subject to change based on various important factors. Actual results could differ materially from those expressed or implied. Additionally, the Company claims no notification responsibilities should their opinions change from those expressed herein.

FINANCIAL CONDITION

Balance Sheets

Total assets decreased $2.5 million or 1.2% from 12/31/00. Federal funds sold decreased $3.9 million or 47.8% due to loan demand and lower deposit levels. As noted in the note to the consolidated financial statements, in January 2001 the Company transferred $30.5 million (amortized cost) of securities classified as held to maturity to available for sale. Net loans increased $2.4 million or 2.3% due to increased demand for commercial loans. Real estate mortgages decreased $.6 million mainly due to $1.6 million in mortgage loans sold during the first half of 2001.

The carrying amounts and estimated fair values of securities are summarized as follows:

	June 30, 2001			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale:				
U.S. Government and federal agency	$18,976,101	$ 487,028	$ 6,876	$19,456,253
State and municipal	2,291,182	50,184	—	2,341,366
Corporate bond and notes	26,729,465	721,702	102,199	27,348,968
Total debt securities	47,996,748	1,258,914	109,075	49,146,587
Equity securities	2,356,379	10,500	191,374	2,175,505
Total	$50,353,127	$1,269,414	$300,449	$51,322,092
Held to Maturity:				
State and municipal	$16,026,044	$ 559,903	$ 228	$16,585,719

The activity in the allowance for loan losses for the first half of 2001 was as follows:

Beginning balance	$1,343,124
Provision for loan losses	30,000
Loans charged-off	(40,123)
Recoveries	11,811
Ending balance	$1,344,812

The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. The allowance is maintained at a level that is considered adequate to absorb all estimated losses. Management estimates the allowance balance required using the following methodology. All problem, past due and non-performing loans are closely monitored and analyzed by management on a regular basis. Management assigns a classification rating to these loans based on information about specific borrower situations and estimated collateral values. Management determines the loss that exists on each significant problem, past due and non-performing loan. Other past due loans that are not analyzed individually are pooled and evaluated by loan type. The inherent loss that exists on past due loans is estimated using past loan loss experience. All other loans are pooled by loan type and evaluated for inherent risk based upon past loan loss experience. National and local economic conditions and other factors are also considered in determining an adequate level for the allowance for loan losses. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Management reviews the allowance for loan losses on a regular basis to determine the adequacy of the reserve.

The allowance for loan losses to total loans outstanding was 1.21% and 1.23% as of June 30, 2001 and December 31, 2000, respectively. On an annualized basis, net charge-off to total average loans were .05% for the first half of 2001 and .02% for the first half of 2000. The ratio of non-performing loans to total loans was .21% ($237,040) for June 30, 2001 compared to .13% ($144,130) for December 31, 2000. Non-performing loans consist of loans that have been placed on nonaccrual status.

Impaired loans at June 30, 2001 were as follows:

Loans with no allocated allowance for loan losses	$ —
Loans with allocated allowance for loan losses	13,000
Amount of the allowance for loan losses allocated	13,000
Average of impaired loans during the first half of 2001	$13,432
Interest income recognized during impairment	784
Cash-basis interest income recognized	784

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Total deposits decreased $2.6 million or approximately 1.6% from 12/31/00. Non-interest bearing demand accounts decreased 3.8%, savings and N.O.W. accounts increased 3.6% and time deposits decreased 6.4%. Deposit balances fluctuate based on the liquidity needs of our customers. Time deposit balances are also affected by the interest rates offered by competitors in our market area. Securities sold under repurchase agreements decreased $0.9 million from 12/31/00. The Federal Reserve note account increased $0.4 million or 62.5% and Federal Home Loan Bank advances decreased $0.6 million or 17.7%. Total shareholders' equity increased $1.2 million or 4.2% from 12/31/00.

Statements of Cash Flows

Net cash provided by operating activities for the first six months of 2001 was $2.7 million compared to $1.3 million for the first six months of 2000. The increase was due primarily to the proceeds from the sale of loans. Net cash used in investing activities for the first six months of 2001 was $2.5 million, down $1.5 million from the first six months of 2000 due primarily to lower loan growth. Net cash of $4.5 million was used by financing activities primarily as a result of a decrease in time deposits. Total cash and cash equivalents decreased $4.2 million during the first six months of 2001. With total cash and cash equivalents of $11.0 million as of 6/30/01, the Company's liquidity ratios continue to remain favorable.

Analysis of Equity

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. The following is a summary of the actual and required regulatory capital amounts and ratios at 6/30/01.

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital to risk-weighted assets						
Consolidated	$30,432	22.16%	$10,985	8.00%	$13,731	10.00%
Bank	26,806	19.85%	10,806	8.00%	13,508	10.00%
Tier 1 (core) capital to risk-weighted assets						
Consolidated	29,087	21.18%	5,493	4.00%	8,239	6.00%
Bank	25,461	18.85%	5,403	4.00%	8,105	6.00%
Tier 1 (core) capital to average assets						
Consolidated	29,087	14.54%	8,003	4.00%	10,003	5.00%
Bank	25,461	12.86%	7,917	4.00%	9,896	5.00%

RESULTS OF OPERATIONS

Interest income totaled $3.4 million or $83 thousand lower for the three-months ended 6/30/01 as compared to the same period in 2000. Interest expense was $1.4 million for the three months ended 6/30/01 or $74 thousand higher than 2000. This resulted in a decrease of $157 thousand or 7.1% in net interest income for the three-month period ended 6/30/01 as compared to 6/30/00. The six months results for the periods ended 6/30/01 and 6/30/00 were an increase in interest income of $186 thousand and an increase in interest expense of $286 thousand. This resulted in a net interest income decrease of $100 thousand or 2.3% for the six months ended 6/30/01 compared to 6/30/00.

Net interest rate margins were 4.91% and 5.25% for the first six months of 2001 and 2000, respectively. Interest income yields decreased 13 basis points as compared to interest costs, which increased 21 basis points in 2001 compared to 2000.

Provision for loan losses was $15,000 for the three months ended 6/30/01 compared to $25,000 for the same period in 2000. The provision for loan losses was $30,000 and $62,500 for the six months ended 6/30/01 and 6/30/00. Net charge offs for the six months ended 6/30/01 were $28 thousand as compared to $9 thousand for the same period in 2000. Management determines the provision for loan losses based upon an analysis of the allowance for loan losses.

Noninterest income was $349 thousand for the three months ended 6/30/01 or approximately 69.3% above the same period in 2000. Noninterest income was $600 thousand for the six months ended 6/30/01 or approximately 46.6% above the same period in 2000, due mainly to gains on loans sold and security gains.

Noninterest expense was $1.6 million for the three months ended 6/30/01 or approximately 0.5% below the same period in 2000. Year to date noninterest expense for 2001 was $3.3 million or 0.7% above the same period in 2000, due mainly to normal salary increases and higher employee benefit costs offset by lower data processing fees.

Net income was $595 thousand for the three months ended 6/30/01 or 1.0% below the same quarter of 2000. Net income was approximately $1.2 million for the six months ended 6/30/01 or 4.2% above the first six months of 2000. The increase was due primarily to gains on sale of loans and security gains.

Unrealized appreciation on securities available for sale was $184 thousand for the three months ended 6/30/01 compared to $34 thousand for the three months ended 6/30/00. Year to date unrealized appreciation (depreciation) was $696 thousand compared to ($203) thousand for the same period last year. A general increase in the market value of debt and equity investments owned, due to improved stock and bond market levels on certain securities coupled with lower interest rates, has increased the market value of securities in the available for sale portfolio. Comprehensive income was $715 thousand for the three months ended 6/30/01 or 12.7% above the same period in 2000. Comprehensive income was $2.0 million for the six months ended 6/30/01 or 105.1% above the first half of 2000.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative disclosures about market risks as of June 30, 2001 from that presented in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings — None

Item 2. Changes in Securities and use of proceeds — None

Item 3. Defaults Upon Senior Securities — None

Item 4. Submission of matters to a vote of security holders – The Company held its Annual Shareholders’ Meeting on April 26, 2001, for the purpose of electing three directors. Shareholders received proxy materials containing the information required by this item. Results of shareholder voting was as follows:

Election of Directors:	**Sara Balzarini**	**Steve Schmid**	**Albert W. Yeagley**
For	1,725,171	1,725,171	1,713,159
Against	—	—	—
Withheld	5,538	5,538	17,550
Shares not voted by Brokers	18,294	18,294	18,294

The following directors continued their terms of office after the 2001 Annual Shareholders’ meeting: Charles J. Dolezal, John W. Kropf, James F. Woolley, Bobbi E. Douglas, John E. Sprunger and Howard J. Wenger.

Item 5. Other Information — None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit No. Under Reg. S-K, Item 601	**Description of Exhibits**	**If incorporated by Reference, Documents with Which Exhibit Was Previously Filed with SEC**
(11)	Computation of Earnings per Share	See Consolidated Statements of Income and Comprehensive Income, Page 4

No other exhibits are required to be filed herewith pursuant to Item 601 of Regulation S-K.

b. There were no reports on Form 8-K filed for the quarter ended 6/30/01.

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.

National Bancshares Corporation

Date: August 10, 2001 /s/Charles J. Dolezal

Charles J. Dolezal, President

Date: August 10, 2001 /s/Lawrence M. Cardinal, Jr.

Lawrence M. Cardinal, Jr., Treasurer
(Principal Financial Officer)