

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 March 31, 2002

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 No

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

Class
Common Stock, No Par Value

Outstanding at April 30, 2002
12,097,223 shares

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CONSOLIDATED BALANCE SHEETS
FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

	(In Thousands of Dollars)	
	March 31, 2002	December 31, 2001
ASSETS		
Cash and due from banks	\$ 23,592	\$ 23,871
Federal funds sold	52,355	41,542
TOTAL CASH AND CASH EQUIVALENTS	75,947	65,413
Securities available for sale	145,113.65	143,575
Loans	442,147	435,470
Less allowance for credit losses	6,517	6,442
NET LOANS	435,630	429,028
Premises and equipment, net	12,907	13,009
Other assets	6,245	5,669
	\$ 675,843	\$ 656,694
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits (all domestic):		
Noninterest-bearing	\$ 50,104	\$ 52,754
Interest-bearing	470,089	450,890
TOTAL DEPOSITS	520,193	503,644
U.S. Treasury interest-bearing demand note	774	141
Securities sold under repurchase agreements	45,836	47,444
Federal Home Loan Bank advances	30,706	26,832
Other liabilities and deferred credits	2,875	2,915
TOTAL LIABILITIES	600,384	580,976
Stockholders Equity:		
Common Stock — Authorized 25,000,000 shares; issued and outstanding 12,139,390 in 2002 and 12,111,331 in 2001	56,402	55,419
Retained earnings	20,586	20,672
Accumulated other comprehensive income	1,246	1,741
Treasury stock, at cost; 234,363 shares in 2002 and 176,351 in 2001	(2,775)	(2,114)
TOTAL STOCKHOLDERS EQUITY	75,459	75,718
	\$ 675,843	\$ 656,694

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

(In Thousands except Per Share Data)
For the Three Months Ended

	March 31, 2002	March 31, 2001
INTEREST INCOME		
Interest and fees on loans	\$ 8,631	\$ 9,419
Interest and dividends on securities:		
Taxable interest	1,292	1,377
Nontaxable interest	351	286
Dividends	204	237
Interest on federal funds sold	188	173
TOTAL INTEREST INCOME	10,666	11,492
INTEREST EXPENSE		
Deposits	3,800	4,492
Borrowings	811	1,055
TOTAL INTEREST EXPENSE	4,611	5,547
NET INTEREST INCOME	6,055	5,945
Provision for credit losses	270	270
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	5,785	5,675
OTHER INCOME		
Service charges on deposit accounts	444	478
Investment security gains	36	8
Other operating income	293	236
TOTAL OTHER INCOME	773	722
OTHER EXPENSES		
Salaries and employee benefits	2,360	2,182
Net occupancy expense of premises	265	274
Furniture and equipment expense, including depreciation	324	295
Intangible and other taxes	199	215
Other operating expenses	1,174	1,062
TOTAL OTHER EXPENSES	4,322	4,028
INCOME BEFORE FEDERAL INCOME TAXES	2,236	2,369
FEDERAL INCOME TAXES	633	688
NET INCOME	\$ 1,603	\$ 1,681
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gains (losses) on securities	(495)	961
COMPREHENSIVE INCOME	\$ 1,108	\$ 2,642
* NET INCOME PER SHARE	0.13	0.14

* Restated to reflect weighted average shares outstanding

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

(In Thousands of Dollars)
Three Months Ended

	March 31, 2002	March 31, 2001
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	\$10,764	\$ 12,338
Fees and commissions received	737	708
Interest paid	(4,754)	(5,757)
Cash paid to suppliers and employees	(4,474)	(4,266)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,273	3,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and repayments of securities available for sale	4,688	7,140
Proceeds from sales of securities available for sale	1,117	1,508
Purchases of securities available for sale	(8,290)	(8,890)
Net decrease (increase) in loans made to customers	(7,193)	4,429
Purchases of premises and equipment	(127)	(138)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(9,805)	4,049
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	16,602	23,699
Net increase (decrease) in short-term borrowings	(990)	2,314
Net increase (decrease) in Federal Home Loan Bank borrowings	3,874	(15,614)
Purchase of Treasury Stock	(661)	0
Dividends paid	(1,742)	(1,581)
Proceeds from sale of common stock	983	777
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,066	9,595
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,534	16,667
CASH AND CASH EQUIVALENTS		
Beginning of period	65,413	34,708
End of period	<u>\$75,947</u>	<u>\$ 51,375</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATIONS		
Net income	\$ 1,603	\$ 1,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	213	194
Amortization and accretion	590	524
Provision for credit losses	270	270
Gain on sale of investment securities	(36)	(8)
Other	(367)	362
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,273</u>	<u>\$ 3,023</u>

FARMERS NATIONAL BANC CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management Representation:

The financial statements for March 31, 2002 and 2001 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 three month period ending March 31, 2002 and 2001 include all adjustments, consisting of only normal recurring adjustments necessary for a fair statement of the results for the periods.

Stockholders Equity	(In Thousands of Dollars) Three Months Ended March 31, 2002
Common Stock	
Balance 1/1/02	55,419
86,071 shares sold	983
	56,402
Balance 3/31/02	56,402
Retained Earnings	
Balance 1/1/02	20,672
Net Income	1,603
Dividends Declared: \$.14 Cash dividends on common stock	(1,689)
	20,586
Balance 3/31/02	20,586
Accumulated Other Comprehensive Income	
Balance 1/1/02	1,741
Net change in unrealized appreciation on available for sale securities, net of income taxes	(495)
	1,246
Balance 3/31/02	1,246
Treasury Stock, At Cost	
Balance 1/1/02	(2,114)
Shares Purchased	(661)
	(2,775)
Balance 3/31/02	(2,775)
Total Stockholders Equity at 3/31/02	75,459

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 three months of 2002 was \$1.603 million, or \$.13 per share, which is a 4.6% decrease compared with the \$1.681 million, or \$.14 per share earned during the same period last year. Return on average assets and return on average equity for the first three months of 2002 were 1.11% and 9.85% respectively, compared to 1.09% and 9.54% for the same period in 2001.

The decrease in net income for the first three months of 2002 was the result of the increase in net interest income not keeping pace with the increase in total other expenses. Net interest income increased slightly while total other expenses increased \$294 thousand or 7.3% compared to last year. As average loan balances decreased 2.89% over the past twelve months, loan yields also decreased from 8.17% in 2001 to 7.45% in 2002. This combination of decreasing balances and declining yields dropped loan income by \$788 thousand or 8.37%. Although the average balance of securities and federal funds sold increased 32.89%, this increase was partially offset by a drop in its' yield from 5.96% in 2001 to 4.41% in 2002.

Interest expense on deposits and borrowings dropped \$936 thousand or 16.87% over the same time period. During 2002, average deposits increased \$34.744 million or 7.38% while the rates paid on deposits decreased from 3.87% in 2001 to 3.05% in 2002. The net effect of these rate and volume changes was a decrease in deposit interest expense of \$692 thousand or 15.41%. Borrowing expense decreased \$244 thousand or 23.13% compared to last year. This decrease is primarily the result of lower borrowing rates declining from 5.63% in 2001 to 4.37% in 2002.

Total other expenses increased from \$4.028 million in 2001 to \$4.322 million in 2002. Salaries and employee benefits increased \$178 thousand or 8.16% compared to last year, primarily as a result of an increase in full-time equivalent employees. Other operating expenses also increased \$112 thousand or 10.5%. Management will continue to closely monitor noninterest expenses.

Results of Operations (Continued)

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 decreased to \$2.273 million compared to \$3.023 million for the same period in 2001. This decrease of \$750 thousand is mainly the result of a decrease in net interest received. Net cash flows used in investing activities amounted to \$9.805 million in 2002 compared to \$4.049 million provided by investing activities for the same period in 2001. Most of the current period's decrease came from new loan growth outpacing repayments of loans made to customers.

Net cash flows provided by financing activities were \$18.066 million in 2002 compared to \$9.595 million in 2001. In 2002, \$16.602 million was generated from increases in deposits.

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 March 31, 2002 the Corporation's total risk-based capital ratio stood at 17.90%, and the Tier I risk-based capital ratio and Tier I leverage ratio were at 16.62% and 11.18%, 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)	
	March 31, 2002	Dec. 31, 2001
Commercial, financial and agricultural	18,027	18,856
Real Estate — mortgage	269,499	261,268
Installment loans to individuals	154,621	155,346
Total Loans	442,147	435,470

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

	(In Thousands of Dollars)	
	March 31, 2002	Dec. 31, 2001
Loans accounted for on a nonaccrual basis	1,341	1,669
Loans contractually past due 90 days or more as to interest or principal payments (not included in nonaccrual loans above)	685	1,175
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)	
	March 31, 2002	Dec. 31, 2001
Gross interest that would have been recorded if the loans had been current in accordance with their original terms	19	50
Interest income included in income on the loans	0	0

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 March 31, 2002, 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)	
	Three Months Ended March 31, 2002	Year Ended Dec. 31, 2001
Balance at beginning of period	6,442	6,115
Loan losses:		
Commercial, financial & agricultural	0	(61)
Real estate — mortgage	(5)	(51)
Installment loans to individuals	(306)	(1,151)
	(311)	(1,263)
Recoveries on previous loan losses:		
Real estate — mortgage	0	34
Installment loans to individuals	116	476
	116	510
Net loan losses	(195)	(753)
Provision charged to operations (1)	270	1,080
Balance at end of period	6,517	6,442
Ratio of net credit losses to average net loans outstanding	.18%	.17%

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)	
	March 31, 2002	Dec. 31, 2001
Commercial, financial & agricultural	1,803	1,841
Real estate — mortgage	1,936	1,881
Installment	2,778	2,720
Total	6,517	6,442

The allocation of the allowance as shown above should not be interpreted as an indication that charge-offs in 2002 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	March 31, 2002	Dec. 31, 2001
Commercial, financial & agricultural	4.1%	4.3%
Real Estate — mortgage	60.9%	60.0%
Installment loans to individuals	35.0%	35.7%
	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

(a) Farmers National Banc Corp's annual meeting of shareholders was held on March 28, 2002.

(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 were management's nominees:

<u>Elected Director</u>	<u>Votes For</u>	<u>Votes Against</u>
Joseph D. Lane	8,936,705	251,309
Ronald V. Wertz	9,096,421	90,641

<u>Continuing Director</u>	<u>Term Expiring</u>
Benjamin R. Brown	March 2003
Edward A. Ort	March 2003
William D. Stewart	March 2003
Ralph D. Macali	March 2004
David C. Myers	March 2004
Frank L. Paden	March 2004

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

No reports on Form 8-K were filed for the three months ended March 31, 2002.

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 6, 2002

/s/Frank L. Paden

Frank L. Paden
President and Secretary

Dated: May 6, 2002

/s/Carl D. Culp

Carl D. Culp
Executive Vice President
and Treasurer