UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended: December 31, 2009

Commission File Number: 0-14773

National Bancshares Corporation

(Exact name of registrant as specified in its charter)

Ohio	34-1518564
(**State or other jurisdiction of incorporation or organization**)	(**IRS Employer Identification No.**)

112 West Market Street, Orrville, Ohio 44667
330-682-1010
(**Address, including zip code, and telephone number, including area code, of registrant's principal executive offices**)

Securities registered pursuant to section 12(b) of the Act: none

Securities registered pursuant to section 12(g) of the Act: common stock, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by sections 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 by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: Based on the average of the bid and asked prices on June 30, 2009, the aggregate market value of National Bancshares Corporation stock held by non-affiliates was $27,810,522.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: National Bancshares Corporation's only class is common stock, without par value, of which 2,205,973 shares were outstanding on March 5, 2010.

Documents Incorporated by Reference

Portions of the registrant's annual report to shareholders for the fiscal year ended December 31, 2009 are incorporated by reference in Part II. Portions of the registrant's definitive proxy statements for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III of this report.

Table of Contents

ITEM 1 – BUSINESS

Forward-looking Statements. This document contains forward-looking statements – as that term is defined in the Private Securities Litigation Reform Act of 1995 – about National Bancshares Corporation ("National Bancshares") and its subsidiary First National Bank. Information incorporated in this document by reference, future filings by National Bancshares on Form 10-Q and Form 8-K, and future oral and written statements by National Bancshares and its management may also contain forward-looking statements. Forward-looking statements include statements about anticipated operating and financial performance, such as loan originations, operating efficiencies, loan sales, charge-offs and loan loss provisions, growth opportunities, interest rates and deposit growth. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "project," "plan," and similar expressions are intended to identify these forward-looking statements.

Forward-looking statements are necessarily subject to many risks and uncertainties. A number of things could cause actual results to differ materially from those indicated by the forward-looking statements. These include the factors we discuss immediately below, those addressed under the caption "Financial Review," other factors discussed elsewhere in this document or identified in our filings with the Securities and Exchange Commission, and those presented elsewhere by our management from time to time. Many of the risks and uncertainties are beyond our control. The following factors could cause our operating and financial performance to differ materially from the plans, objectives, assumptions, expectations, estimates, and intentions expressed in the forward-looking statements:

- the strength of the United States economy in general and the strength of the local economies in which we conduct our operations; general economic conditions, either nationally or regionally, may be less favorable than we expect, resulting in a deterioration in the credit quality of our loan assets, among other things
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest-rate policies of the Federal Reserve Board
- inflation, interest rate, market, and monetary fluctuations
- the development and acceptance of new products and services of National Bancshares and its subsidiary and the perceived overall value of these products and services by users, including the features, pricing, and quality compared to competitors' products and services
- the willingness of users to substitute our products and services for those of competitors
- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities, and insurance)
- changes in consumer spending and saving habits

Forward-looking statements are based on our beliefs, plans, objectives, goals, assumptions, expectations, estimates, and intentions as of the date the statements are made. Investors should exercise caution because we cannot give any assurance that our beliefs, plans, objectives, goals, assumptions, expectations, estimates, and intentions will be realized. We disclaim any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

Company Milestones. National Bancshares and First National Bank's history spans more than 125 years. Some of the milestones are:

1881	First National Bank is chartered under the name "Orrville Banking Company"
1902	the Bank's name is changed to "Orrville National Bank"
1933	the Bank is reorganized and renamed the "National Bank of Orrville"
1965	the Bank opens its first branch at 1320 West High Street, Orrville, Ohio
1968	the Bank merges with the First National Bank of Dalton, becoming "First National Bank Orrville-Dalton"
1969	the Bank merges with the Bank of Mt. Eaton Company

1972 the Bank merges with the Farmers and Merchants Bank Company of Smithville and renamed to "First National Bank"

1975 the Bank opens its Midway office in Apple Creek

1986 National Bancshares Corporation becomes the holding company for First National Bank on June 2

1989 the Bank enters Medina County with the purchase of its Lodi office

1994 the Bank establishes its second Medina County office with the purchase of the Seville office

1999 the Bank opens its Cleveland Road office in the city of Wooster

2002 the acquisition of Peoples Financial Corporation and its subsidiary, Peoples Federal Savings and Loan Association of Massillon, is completed, adding three more banking offices, our first offices in Stark County

2005 the Bank closes its Marketplace office in Massillon and opens its Burbank Road office in Wooster

2006 First National Bank celebrates its 125 year anniversary

2009 the Bank opens an office in Summit County, located at 3085 West Market Street in Fairlawn, Ohio

Market Area. National Bancshares' sole banking subsidiary is First National Bank ("Bank"). The Bank operates 14 offices in Wayne, Medina, Stark and Summit Counties. Wayne County generally, and more specifically the city of Orrville and its other municipalities in the northeastern quadrant of Wayne County, constitutes the geographic center of the Bank's market, extending from there to most of Wayne County, the southern portion of Medina County and southwestern part of Summit County to the north, western Stark County to the east, and the northeastern portion of Holmes County to the south. With their dense urban populations and wide-ranging industries, including many service, manufacturing, retail and other establishments of all sizes, the cities of Cleveland in Cuyahoga County, Akron in Summit County, and Canton in Stark County lie in a crescent just beyond the northern and eastern ends of the Bank's market area. The Bank occupies a much more rural area with a significantly lower population density and less industrial diversity, and with a significantly higher proportion of small farm and related agricultural enterprises. Wayne County is largely rural. Holmes County is virtually entirely rural, with a large percentage of Amish and Mennonite inhabitants. The portions of Stark and Medina Counties occupied by the Bank are somewhat less urban than the remainder of the historically urban and industrial Stark County and the remainder of Medina County, which has been growing very rapidly for many years because of its increasingly close association with urban centers in Cleveland and Akron.

The April 2002 merger with Peoples Federal Savings and Loan Association of Massillon added three offices in western Stark County – all located in Massillon – to the Bank's 11 offices in Wayne and Medina Counties. First National Bank had already been serving western Stark County, but without a branch presence. Massillon is the largest urban center in the Bank's market, with a population of slightly more than 32,300 according to the 2007 estimate by Ohio Department of Development (*www.odod.state.oh.us/research)* data, followed by Wooster in Wayne County, with a population of approximately 26,000, and the city of Orrville in Wayne County, with a population just under 8,500. The total population of the Bank's market area is estimated to be between 175,000 and 225,000, but a more precise figure is difficult to determine because the Bank's market area does not necessarily correspond with the geographic and political boundaries employed when population data are compiled and reported. Of the counties that make up the Bank's market area, Holmes, Medina and Wayne benefit from an unemployment rate that is less than the state average, which was 10.7% according to 2009 Ohio Department of Job and Family Services (available at *lmi.state.oh.us*). The unemployment rates at December 2009 are 9.9% in Wayne County, 8.2% in Medina County, and 7.4% in Holmes County. Meanwhile, Stark County had an unemployment rate of 12.2% at December 2009.

In summary, First National Bank believes the market area it has defined as its own generates economic activity and has demographic trends that should sustain the Bank for the indefinite future. The Bank is open to the prospect of expansion beyond its current market area, particularly if a suitable opportunity arises for expansion either by acquisition or by internal growth. For purposes of potential expansion either by acquisition or by internal growth, the more urban and industrial crescent at the northern and eastern edge of the Bank's market area offers more competitive resistance. The Bank's immediate goal is to achieve a broader and deeper penetration of its existing market area. We believe that the banking needs within our market have not been exhausted and that opportunities exist for a local community bank to achieve market-share gains at the expense of more distant and larger institutions whose organization-wide profit goals and credit standards leave less room for flexibility to adjust to local borrowers and other customers' circumstances.

Competition. The market in which we operate is intensely competitive. Offering checking and savings accounts, certificates of deposit, personal loans, loans to businesses and professionals, installment loans, safety deposit boxes, and credit cards, we compete with other banks and savings institutions, many of which are significantly larger than First National Bank and have greater financial, staff, and other resources and higher lending limits. Insurance companies, consumer finance companies, credit unions, mortgage banking companies, commercial finance and leasing companies, money market mutual funds, and securities firms also provide many of the financial services we offer. We face competition both in making loans and in attracting deposits. Competition generally is based on interest rates and other credit and service charges, the quality of services rendered, the ability to react and respond to customer requirements, the convenience of banking hours and branch locations, the range and type of products offered and, in the case of loans to larger commercial borrowers, lending limits, among other factors. We do not have trust powers and therefore do not offer trust services. We seek to take competitive advantage of First National Bank's local orientation and community banking profile, competing for loans principally through our responsiveness to customers, our ability to communicate effectively with them, and our ability to understand and address their needs. We compete for deposits principally by offering customers personal attention, a variety of banking services, attractive rates, and strategically located banking facilities. Our goal is to provide high quality banking service to professionals, small and mid-sized businesses and individuals, emphasizing quick and flexible responses to customer demands, while providing a personalized touch.

The dominant institutions in Wayne, Stark, Medina and Summit Counties are offices of significantly larger banking institutions, some of which have a statewide, multi-state, and even national presence. These competitors are more geographically diversified than First National Bank, meaning they are less vulnerable to adverse changes in our local economy. Likewise, some competitors are not subject to the same kind and amount of regulatory restrictions and supervision to which a national bank is subject. Because First National Bank is smaller than many commercial lenders in its market, occasionally, we are prevented from making commercial loans in amounts competitors can offer. First National Bank accommodates loan volumes in excess of its lending limits from time to time through the sale of loan participations to other banks.

The share of deposits held by a particular banking institution relative to all other banking institutions in a particular market is not the only, but it is perhaps the most readily identifiable, indicator of a bank's market share. As a percent of all deposits held by FDIC-insured banks and savings associations in the county, according to FDIC data available on the FDIC's website (*www.fdic.gov*) one institution had a market share exceeding 18% in all three counties as of June 30, 2008. Based on the FDIC's June 30, 2009 deposit data, First National Bank had a 12.99% share of deposits in Wayne County (ranking 4th of 12 FDIC-insured institutions), 0.91% in Stark County (11th of 16), and 1.13% in Medina County (14th of 18). The Summit County office located in Fairlawn, Ohio was opened on May 29, 2010. We have no offices in Holmes County.

The banking industry has been changing for many reasons, including continued consolidation within the banking industry, legislative and regulatory changes, and advances in technology. Congress' elimination in 1994 of many restrictions on interstate branching could increase competition from large banks headquartered outside of our market. Congress' repeal in late 1999 of much of the Glass-Steagall Act (which had separated the commercial and investment banking industries) and elimination of the barriers between the banking and insurance industries could make competition even more intense. Because of our smaller size, we may have less opportunity to take advantage of the flexibility offered by that new legislation. With frequent introductions of new technology-driven products and services, the banking industry is undergoing rapid technological changes. To deliver banking products and services more effectively and efficiently, banking institutions are opening in-store branches, installing more automated teller machines (ATMs), and investing in technology to permit telephone, personal computer, and internet banking. In addition to enhancing customer service, the effective use of technology increases efficiency and enables financial institutions to reduce costs. A financial institution's success is increasingly dependent upon use of technology to provide products and services that satisfy customer demands and to create additional operating efficiencies. Many of our competitors have substantially greater resources to invest in technological improvements, which could enable them to perform various banking functions at lower costs than First National Bank, or to provide products and services that we are not able to provide economically. Although all banks are experiencing the effects of the changing competitive and technological environment, the manner in which banks choose to compete is increasing the gap between large national and super-regional banks, on one hand, and community banks on the other. Large institutions are committed to becoming national or regional "brand names," providing a broad selection of products at low cost and with advanced technology, while community banks provide most of the same products but with a commitment to personal service and with local ties to the customers and communities they serve.

Because of the demand for technology-driven products, banks rely increasingly on unaffiliated vendors to provide data processing services and other core banking functions. The use of technology-related products, services, delivery channels, and processes exposes banks to various risks, particularly transaction, strategic, reputation, and compliance risk.

Lending. Lending practices are governed by the Bank's Credit Policy, which is approved annually by the Board of Directors, and by regulations and policies of the Office of the Comptroller of the Currency ("OCC"), the principal federal regulator of national banks. The Credit Policy delegates lending authority to the President & Chief Executive Officer, Senior Vice President & Senior Loan Officer, and all loan officers. The Credit Policy also establishes guidelines for credit types, loan mix, concentration of credit, and credit standards.

First National Bank makes commercial loans, commercial real estate loans, construction loans, residential mortgage and home equity loans, and secured and unsecured consumer installment loans. A substantial portion of our commercial loans is designated as real estate loans for regulatory reporting purposes because they are secured by mortgages on real property. Loans of that type may be made for the purpose of financing commercial activities, such as accounts receivable, equipment purchases and leasing, but they are secured by real estate to provide the Bank with an extra measure of security. Although these loans might be secured in whole or in part by real estate, they are treated in the discussions to follow as commercial loans. Our consumer installment loans include secured and unsecured loans to individual borrowers for a variety of purposes, including personal, home improvements, and revolving credit lines.

A significant portion of the Bank's lending consists of origination of conventional loans secured by 1-4 family real estate located in the Bank's market area. The Bank's residential mortgage loans generally are originated with loan documentation permitting sale to Federal Home Loan Mortgage Corporation.

The Bank's commercial loan services include –

- accounts receivable, inventory and working capital loans
- renewable operating lines of credit
- loans to finance capital equipment
- term business loans
- short-term notes
- selected guaranteed or subsidized loan programs for small businesses
- loans to professionals
- commercial real estate loans, including agricultural loans secured by farmland
- loans for agricultural production and other loans to farmers

Commercial real estate loans include commercial properties occupied by the proprietor of the business conducted on the premises and income-producing or farm properties. Agricultural loans secured by farmland are a subset of our commercial real estate loan products, whereas we also categorize loans for agricultural production and other loans to farmers as commercial loans (not secured by real estate). The primary risk of commercial real estate loans is loss of income of the owner or occupier of the property or the inability of the market to sustain rent levels. Although commercial and commercial real estate loans generally bear somewhat more credit risk than single-family residential mortgage loans, commercial and commercial real estate loans tend to be higher yielding, tend to have shorter terms, and commonly provide for interest-rate adjustments as prevailing rates change. Accordingly, commercial and commercial real estate loans enhance a lender's interest rate risk management and, in management's opinion, promote more rapid asset and income growth than a loan portfolio comprised strictly of residential real estate mortgage loans.

Although a risk of nonpayment exists for all loans, certain specific types of risks are associated with various kinds of loans. One of the primary risks associated with commercial loans is the possibility that the commercial borrower will not generate income sufficient to repay the loan. The Bank's loan policy provides that commercial loan applications must be supported by documentation indicating that there will be cash flow sufficient for the borrower to service the proposed loan. Financial statements or tax returns must be submitted, and annual reviews are undertaken. The fair market value of collateral for collateralized commercial loans must exceed the Bank's loan exposure. For this purpose fair market value is determined by independent appraisal.

Real estate is commonly a material component of collateral for our loans, including commercial loans. Although the expected source of repayment of these loans is generally the operations of the borrower's business or personal income, real estate collateral provides an additional measure of security. Risks associated with loans secured by real estate include fluctuating land values, changing local economic conditions, changes in tax policies, and a concentration of loans within a limited geographic area.

First National Bank originates several different types of loans that it categorizes as construction loans, including –

- residential construction loans to borrowers who will occupy the premises upon completion of construction,
- residential construction loans to builders,
- commercial construction loans, and
- real estate acquisition and development loans.

Because of the complex nature of construction lending, these loans are generally recognized as having a higher degree of risk than other forms of real estate lending, including credit risk. The Bank's fixed-rate and adjustable-rate construction loans may not provide for the same interest rate terms on the construction loan and on the permanent mortgage loan that follows completion of the construction phase of the loan. It is the norm for the Bank to make residential construction loans with an existing written commitment for permanent financing.

Our consumer loans include secured and unsecured loans to individual borrowers for a variety of purposes, including personal, home improvement, revolving credit lines, autos, boats, and recreational vehicles. Historically, we have had minimal indirect lending activity, however over that past year we have become more involved and are looking to increase our involvement in the indirect lending line of business. Unsecured consumer loans generally carry significantly higher interest rates than secured loans.

Loans and extensions of credit to a single borrower may not exceed 15% of capital, often referred to as the "legal lending limit" or "loans-to-one-borrower limit." But an additional margin of 10% of capital is permitted for loans fully secured by readily marketable collateral. The Bank can accommodate loan volumes exceeding the legal lending limit by selling participation interests in loans to other banks. As of December 31, 2009, the Bank's legal lending limit for loans to a single borrower was approximately $4.0 million.

Loan Solicitation and Processing. Loan originations are developed from a number of sources, including continuing business with depositors, other borrowers and real estate builders, solicitations by Bank personnel and walk-in customers.

When a loan request is made, the Bank reviews the application, credit bureau reports, property appraisals or evaluations, financial information, verifications of income, and other documentation concerning the creditworthiness of the borrower, as applicable to each loan type. The Bank's underwriting guidelines are set by senior management and approved by the board. The loan policy specifies officers' loan approval authority, requiring approval by the board's Executive Committee or the full board for any aggregate borrowing to one customer or related customers of $3.0 million or more or if a loan is rated substandard or below.

Income from Lending Activities. The Bank earns interest and fee income from its lending activities. Net of origination costs, loan origination fees are amortized over the life of a loan. The Bank also receives loan fees related to existing loans, including late charges. Income from loan origination and commitment fees and discounts varies with the volume and type of loans and commitments made and with competitive and economic conditions. Note 1 to the Consolidated Financial Statements included herein contains a discussion of the manner in which loan fees and income are recognized for financial reporting purposes.

Delinquent Loans – Late charges on residential mortgages and consumer loans are assessed if a payment is not received by the due date plus a grace period. When an advanced stage of delinquency appears on a single-family loan and if repayment cannot be expected within a reasonable time or a repayment agreement is not entered into, a required notice of foreclosure or repossession proceedings may be prepared by the Bank's attorney and delivered to the borrower so that foreclosure proceedings may be initiated promptly, if necessary. The Bank also collects late charges on commercial loans.

When the Bank acquires real estate through foreclosure, voluntary deed, or similar means, it is classified as "other real estate owned" until it is sold. When property is acquired in this manner, it is recorded at the lower of cost (the unpaid principal balance at the date of acquisition) or fair value. Any subsequent write-down is charged to expense. All costs incurred from the date of acquisition to maintain the property are expensed. "Other real estate owned" is appraised during the foreclosure process, before acquisition. Losses are recognized for the amount by which the book value of the related mortgage loan exceeds the estimated net realizable value of the property.

Investments – Investment securities provide a return on residual funds after lending activities. Investments may be in corporate securities, U.S. Government and agency obligations, state and local government obligations and mortgage-backed securities. The Bank generally does not invest in securities that are rated less than investment grade by a nationally recognized statistical rating organization. All securities-related activity is reported to the Bank's board of directors. General changes in investment strategy are required to be reviewed and approved by the board. The President & Chief Executive Officer can purchase and sell securities in accordance with the Bank's stated Investment Policy.

Sources of Funds – *Deposit Accounts*. Deposit accounts are a major source of funds for the Bank. The Bank offers a number of deposit products to attract both commercial and regular consumer checking and savings customers, including regular and money market savings accounts, NOW accounts, and a variety of fixed-maturity, fixed-rate certificates with maturities ranging from seven days to 60 months. These accounts earn interest at rates established by management based on competitive market factors and management's desire to increase certain types or maturities of deposit liabilities. The Bank also provides debit cards, gift cards, travel cards, travelers' checks, official checks, money orders, ATM services, and IRA accounts.

Borrowings. Deposits and repayment of loan principal are the Bank's primary sources of funds for lending activities and other general business purposes. However, when the supply of lendable funds or funds available for general business purposes cannot satisfy the demand for loans or general business purposes, the Bank can obtain funds from the Federal Home Loan Bank (FHLB) of Cincinnati. In addition to borrowing from the FHLB on a term-loan basis, the Bank has a line of credit with the FHLB that allows the Bank to borrow in an amount based on a percentage of the Bank's pledged eligible mortgages. All or substantially all of the Bank's mortgage loans are pledged to the FHLB. As of December 31, 2009, the Bank had additional borrowing capacity of approximately $4.6 million from the FHLB. Interest is payable monthly, and the line of credit is secured by a blanket pledge collateral agreement. First National Bank also has access to credit through the Federal Reserve Bank of Cleveland and other funding sources.

Personnel – As of December 31, 2009, First National Bank had 101 full-time equivalent employees. A collective bargaining group represents none of the employees. Management considers its relations with employees to be excellent.

Minority Ownership of a Title Insurance Agency – First National Bank owns 49% of the stock of First Kropf Title, L.L.C., a title insurance agency whose majority owner is Kropf, Wagner, Lutz and VanSickle, L.L.C., a law firm in which a director and Chairman of the Board of Directors of National Bancshares and the Bank – Mr. John W. Kropf – is an owner. In many mortgage transactions, the Bank selects the firm that will provide title insurance services, but the mortgage borrower ordinarily pays the costs. First Kropf Title, L.L.C. is not the only title insurance agency used by the Bank, but First Kropf Title, L.L.C. derives all or substantially all of its business through referrals from the Bank.

Available Information – The Company makes available, free of charge, through the Investor Relations section of its Internet website at www.discoverfirstnational.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files such reports with or furnishes them to the Securities and Exchange Commission. Also the Company's Corporate Governance and Nominating Committee Charter and Audit Committee Charter are available under the Investor Relations section on its website.

Supervision and Regulation

The following discussion of bank supervision and regulation is qualified in its entirety by reference to the statutory and regulatory provisions discussed. Changes in applicable law or in the policies of various regulatory authorities could affect materially the business and prospects of National Bancshares and the Bank.

National Bancshares is a bank holding company within the meaning of the Bank Holding Company Act of 1956. As such, National Bancshares is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (Federal Reserve), acting primarily through the Federal Reserve Bank of Cleveland. National Bancshares is required to file annual reports and other information with the Federal Reserve. First National Bank is a national bank, regulated primarily by the Office of the Comptroller of the Currency ("OCC") and secondarily by the FDIC.

National Bancshares and the Bank are subject to federal banking laws intended to protect depositors, not shareholders. Federal and state laws applicable to holding companies and their financial institution subsidiaries regulate the range of permissible business activities, investments, reserves against deposits, capital levels, lending activities and practices, the nature and amount of collateral for loans, establishment of branches, mergers, dividends, and a variety of other important matters. The Bank is subject to detailed, complex, and sometimes overlapping federal and state statutes and regulations affecting routine banking operations. These statutes and regulations include but are not limited to state consumer credit laws, the Truth-in-Lending Act and Regulation Z, the Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Truth in Savings Act, and the Community Reinvestment Act. The Bank must comply with Federal Reserve Board regulations requiring depository institutions to maintain reserves against their transaction accounts (principally NOW and regular checking accounts).

The Federal Deposit Insurance Corporation Improvement Act of 1991 expanded significantly the authority of federal agencies to regulate the activities of federally chartered and state-chartered financial institutions and their holding companies. The Federal Reserve and the FDIC have extensive authority to prevent and to remedy unsafe and unsound practices and violations of applicable laws and regulations by institutions and holding companies. The agencies may assess civil money penalties, issue cease-and-desist or removal orders, seek injunctions, and publicly disclose those actions.

Temporary Liquidity Guarantee Program. On October 14, 2008, the FDIC announced a new program – the Temporary Liquidity Guarantee Program ("TLGP") that provides unlimited deposit insurance on funds in non-interest bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. Such non-interest bearing transaction deposit accounts are initially insured at no cost to the institution for 30 days, with coverage continuing through June 30, 2010 at a 10 bps fee on deposit amounts in excess of $250,000. Eligible institutions were able to opt-out on or before December 5, 2008. The Bank did not elect to opt-out of the unlimited deposit insurance provided under the TLGP. Also under TLGP, newly issued senior unsecured debt issued on or before June 30, 2009 was fully insured in the event the issuing institution subsequently fails, or its holding company files for bankruptcy. The Bank has elected not to participate in the debt guarantee portion of this program.

Regulation of Bank Holding Companies – *Bank and Bank Holding Company Acquisitions*. The Bank Holding Company Act requires every bank holding company to obtain approval of the Federal Reserve before –

- directly or indirectly acquiring ownership or control of any voting shares of another bank or bank holding company, if after the acquisition the acquiring company would own or control more than 5% of the shares of the other bank or bank holding company (unless the acquiring company already owns or controls a majority of the shares),
- acquiring all or substantially all of the assets of another bank, or
- merging or consolidating with another bank holding company.

The Federal Reserve will not approve an acquisition, merger, or consolidation that would have a substantially anticompetitive result unless the anticompetitive effects of the proposed transaction are clearly outweighed by a greater public interest in satisfying the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial factors in its review of acquisitions and mergers.

Additionally, the Bank Holding Company Act, the Change in Bank Control Act and the Federal Reserve's Regulation Y require advance approval of the Federal Reserve to acquire "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of a class of voting securities of the bank holding company. If the holding company has securities registered under Section 12 of the Securities Exchange Act of 1934, as National Bancshares does, or if no other person owns a greater percentage of the class of voting securities, control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities.

Nonbanking Activities. With some exceptions, the Bank Holding Company Act has for many years also prohibited a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve non-bank activities that, by statute or by Federal Reserve regulation or order, are held to be closely related to the business of banking or of managing or controlling banks. In making its determination that a particular activity is closely related to the business of banking, the Federal Reserve considers whether the performance of the activities by a bank holding company can be expected to produce benefits to the public – such as greater convenience, increased competition, or gains in efficiency in resources – that will outweigh the risks of possible adverse effects such as decreased or unfair competition, conflicts of interest, or unsound banking practices. Some of the activities determined by Federal Reserve regulation to be closely related to the business of banking are: making or servicing loans or leases; engaging in insurance and discount brokerage activities; owning thrift institutions; performing data processing services; acting as a fiduciary or investment or financial advisor; and making investments in corporations or projects designed primarily to promote community welfare.

Financial Holding Companies. On November 12, 1999 the Gramm Leach Bliley Act became law, repealing much of the 1933 Glass-Steagall Act's separation of the commercial and investment banking industries and permitting bank holding companies to become financial holding companies and affiliate with securities firms and insurance companies, as well as engage in other activities that are financial in nature. The Gramm Leach Bliley Act expands the range of nonbanking activities a bank holding company may engage in, while preserving existing authority for bank holding companies to engage in activities that are closely related to banking. The new legislation creates a new category of holding company called a "financial holding company." If each of a bank holding company's subsidiary banks is well capitalized under regulatory prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act, the bank holding company may become a financial holding company by filing a declaration that the bank holding company wishes to become a financial holding company. No regulatory approval is necessary for a financial holding company to acquire a company – other than a bank or savings association – engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve. Financial holding companies may engage in any activity that is –

- financial in nature or incidental to that financial activity, or

- complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

Activities that are financial in nature include –

- acting as principal, agent, or broker for insurance,
- underwriting, dealing in, or making a market in securities, and
- providing financial and investment advice.

The Federal Reserve and the Secretary of the Treasury have authority to decide that other activities are also financial in nature or incidental to financial activity, taking into account changes in technology, changes in the banking marketplace, competition for banking services, and so on. The Federal Reserve has authority under Rule 225.83 (12 CFR 225.83) to prohibit a company from exercising the enhanced powers of a financial holding company if the Federal Reserve determines that the company's bank subsidiary is not well capitalized or well managed. National Bancshares is and has been engaged solely in activities that were permissible for a bank holding company before enactment of the Gramm Leach Bliley Act.

Holding Company Capital and Source of Strength. The Federal Reserve considers the adequacy of a bank holding company's capital on essentially the same risk-adjusted basis as capital adequacy is determined by the FDIC at the bank subsidiary level. It is also Federal Reserve policy that bank holding companies serve as a source of strength for their subsidiary banking institutions, committing resources to subsidiary banks when necessary. A holding company might be compelled to provide support to a subsidiary bank when the holding company does not have the resources to provide it. Additionally, the National Bank Act gives the OCC authority to assess a national bank's stockholders (or the bank's holding company) if the bank's capital becomes impaired. 12 U.S.C. 55. If the stockholders (or holding company) fail to pay the assessment within three months, the OCC could order the sale of the bank's stock to cover the deficiency.

Under Bank Holding Company Act section 5(e), the Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary if the Federal Reserve determines that the activity or control constitutes a serious risk to the financial safety, soundness, or stability of a subsidiary bank. And with the Federal Deposit Insurance Corporation Improvement Act of 1991's addition of the prompt corrective action provisions to the Federal Deposit Insurance Act, section 38(f)(2)(I) of the Federal Deposit Insurance Act now provides that a federal bank regulatory authority may require a bank holding company to divest itself of an undercapitalized bank subsidiary if the agency determines that divestiture will improve the bank's financial condition and prospects.

Deposit Insurance. The FDIC insures the deposits of the Bank to the extent provided by law. Prior to 2007, under the FDIC's risk-based insurance system, depository institutions were assessed premiums based upon the institution's capital position and other supervisory factors. Effective January 1, 2007, the FDIC began using a new approach to assess premiums. The FDIC places each depository institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Within the lowest risk category, known as Risk Category I, rates will vary based on each institution's CAMELS component ratings, certain financial ratios (for most institutions), and long-term debt issuer ratings (for large institutions that have such a rating). In 2009, rates ranged between 7 and 77.5 cents per $100 in assessable deposits depending on the risk category to which an insured depository institution was assigned. Institutions in Risk Category I were charged a rate between 7 and 24 cents per $100 in assessable deposits in 2009. The FDIC premium assessment rates have increased dramatically for the first quarter of 2009 and are anticipated to remain at increased levels for the next several years.

On February 8, 2006, the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") was signed into law as part of the Deficit Reduction Act of 2005. Among other provisions, the Reform Act provided for the merger of the two insurance funds, Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF), into a new single deposit insurance fund, Deposit Insurance Fund (DIF). Prior to the merger of BIF and SAIF, the Bank's primary insurance fund for deposits was BIF. Among other things, the Reform Act provides for the (i) modification of assessments under the risk-based assessment system, (ii) replacement of a fixed designated reserve ratio with a reserve range between 1.15% of estimated insured deposits and 1.5% of estimated insured deposits, and (iii) payment by the FDIC of dividends when certain reserve ratios exceed certain thresholds. Because of recent depository institution failures, the DIF reserve ratio fell significantly below 1.15%. The Reform Act requires that the FDIC create and implement a plan to restore the reserve ratio to at least 1.15% within five years.

On October 16, 2008, the FDIC published a notice in the Federal Register concerning its establishment of the Federal Deposit Insurance Corporation Restoration Plan (the "Restoration Plan"). The Restoration Plan is a five year recapitalization plan for the DIF (subsequently amended to cover a seven-year time frame, as discussed below) based, in part, on significantly higher assessed DIF rates. Concurrent with the publication of the Restoration Plan, the FDIC issued a proposed rule to increase the DIF assessed rates for the first quarter of 2009 by 7 bps and, effective April 1, 2009, to make certain other changes regarding risk-based assessment and to set new deposit insurance rates. On December 22, 2008, the FDIC issued a final rule in which it invoked the "good cause" exception of the Administrative Procedures Act to waive the requirement that once finalized a rule must have a delayed effective date of 30 days from the publication date and, effective January 1, 2009, raised the first quarter 2009 DIF assessed rates by 7 bps. Under the final rule, for the first quarter of 2009, the new rates were expressed to range between 12 and 50 cents per $100 in assessable deposits depending on the risk category to which an insured depository institution was assigned. Institutions in Risk Category I were charged a rate between 12 and 14 cents per $100 in assessable deposits for the first quarter of 2009. Such an increase in the DIF assessed rates more than doubles the previous applicable rates for Tier I institutions.

On May 22, 2009, the FDIC adopted a rule designed to replenish the deposit insurance fund. This rule established a special assessment of five basis points on each FDIC-insured depository institution's assets minus its Tier 1 capital with a maximum assessment not to exceed 10 bps of an institution's domestic deposits. This special assessment was calculated based on asset levels at June 30, 2009, and was collected on September 30, 2009. The Corporation recorded an expense of $162,382 in 2009 in connection with this assessment.

Insured depository institutions are further assessed premiums for Financing Corporation ("FICO") bond debt service. The FICO assessment rate for DIF in 2009 ranged between a high of 1.14 basis points for the first quarter to a low of 1.02 for the fourth quarter. For the first quarter of 2010, the FICO assessment rate for DIF is 1.06 basis points resulting in a premium of $0.0106 per $100 of DIF-eligible deposits.

On November 17, 2009, the FDIC issued a final rule that required insured institutions to prepay on December 30, 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. For the fourth quarter of 2009 and for all of 2010, the prepaid assessment rate was based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter of 2009. The prepaid assessment rates for 2011 and 2012 are equal to the modified third quarter of 2009 total base assessment rate plus three bps adjusted quarterly for an estimated five percent annual growth rate in the assessment base through the end of 2012. As the prepayment related to future periods, it was recorded in other assets for financial reporting purposes and will be recognized as expense over the coverage period.

In November 2009, the Federal Reserve issued amendments to Regulation E, which implement the Electronic Fund Transfer Act (Regulation E). The new rules have a compliance date of July 1, 2010. These amendments change, among other things, the way we and other banks may charge overdraft fees; by limiting our ability to charge an overdraft fee for ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents to the bank's payment of overdrafts for those transactions. Changes to our overdraft practices will negatively impact future service charge revenue primarily in Deposits.

Interstate Banking and Branching. In 1994 the Riegle-Neal Interstate Banking and Branching Efficiency Act eased restrictions on interstate banking. The Riegle-Neal Act allows the Federal Reserve to approve an application by an adequately capitalized and adequately managed bank holding company to acquire a bank located in a state other than the acquiring company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve may not approve the acquisition of a bank that has not been in existence for the minimum time period (up to five years) specified by the statutory law of the acquired, or "target," bank's state. The Riegle-Neal Act also prohibits the Federal Reserve from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state that may be held or controlled by a bank or bank holding company if the limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% statewide concentration limit contained in the Riegle-Neal Act.

Branching between states may be accomplished by merging commonly controlled banks located in different states into one legal entity. Branching may also be accomplished by establishing *de novo* branches or acquiring branches in another state. Under section 24(j) of the Federal Deposit Insurance Act, a branch of a bank operating out-of-state – in a "host state" in other words – is subject to the law of the host state regarding community reinvestment, fair lending, consumer protection, and establishment of branches. The Riegle-Neal Act authorizes the FDIC to approve interstate branching *de novo* by state-chartered banks solely in states that specifically allow it. Ohio bank law allows *de novo* branching in Ohio by an out-of-state bank. The FDIC has adopted regulations under the Riegle-Neal Act to prohibit an out-of-state bank from using the new interstate branching authority primarily for the purpose of deposit production. These regulations include guidelines to ensure that interstate branches operated by an out-of-state bank in a host state are reasonably helping to satisfy the credit needs of the communities served by the out-of-state bank.

Capital – *Risk-Based Capital Requirements*. The Federal Reserve Board and the OCC employ similar risk-based capital guidelines in their examination and regulation of bank holding companies and national banks. If capital falls below the minimum levels established by the guidelines, the bank holding company or bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities. Failure to satisfy capital guidelines could subject a banking institution to a variety of enforcement actions by federal bank regulatory authorities, including the termination of deposit insurance by the FDIC and a prohibition on the acceptance of "brokered deposits."

In the calculation of risk-based capital, assets and off-balance sheet items are assigned to broad risk categories, each with an assigned weighting (0%, 20%, 50% and 100%). Most loans are assigned to the 100% risk category, except for first mortgage loans fully secured by residential property, which carry a 50% rating. Direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies have a 0% risk-weight. Off-balance sheet items are also taken into account in the calculation of risk-based capital, with each class of off-balance sheet item being converted to a balance sheet equivalent according to established "conversion factors." From these computations, the total of risk-weighted assets is derived. Risk-based capital ratios therefore state capital as a percentage of total risk-weighted assets and off-balance sheet items. The ratios established by guideline are minimums only.

Current risk-based capital guidelines require bank holding companies with more than $500 million in total assets and all banks to maintain a minimum risk-based total capital ratio equal to 8% and a Tier 1 capital ratio of 4%. Intangibles other than readily marketable mortgage servicing rights are generally deducted from capital. Tier 1 capital includes stockholders' equity, qualifying perpetual preferred stock (within limits and subject to conditions, particularly if the preferred stock is cumulative preferred stock), and minority interests in equity accounts of consolidated subsidiaries, less intangibles, identified losses, investments in securities subsidiaries, and certain other assets. Tier 2 capital includes the allowance for loan losses, up to a maximum of 1.25% of risk-weighted assets, any qualifying perpetual preferred stock exceeding the amount includable in Tier 1 capital, mandatory convertible securities, and subordinated debt and intermediate term preferred stock, up to 50% of Tier 1 capital. The OCC's evaluation of an institution's capital adequacy takes into account a variety of other factors as well, including interest rate risks to which the institution is subject, the level and quality of an institution's earnings, loan and investment portfolio characteristics and risks, risks arising from the conduct of nontraditional activities, and a variety of other factors.

Accordingly, the OCC's final supervisory judgment concerning an institution's capital adequacy could differ significantly from the conclusions that might be derived from the absolute level of an institution's risk-based capital ratios. Therefore, institutions generally are expected to maintain risk-based capital ratios that exceed the minimum ratios discussed above. This is particularly true for institutions contemplating significant expansion plans and institutions that are subject to high or inordinate levels of risk.

The banking agencies have also established a minimum leverage ratio of 3%, which represents Tier 1 capital as a percentage of total assets, less intangibles. However, for all but the most highly rated banks and bank holding companies, the banking agencies expect an additional margin of at least 100 to 200 basis points. At December 31, 2009, the bank was in compliance with all regulatory capital requirements. Actual and required capital amounts and ratios are presented elsewhere, specifically in Note 14 of National Bancshares's audited financial statements for the year ended December 31, 2009.

Prompt Corrective Action. To resolve the problems of undercapitalized institutions and to prevent a recurrence of the banking crisis of the 1980s and early 1990s, the Federal Deposit Insurance Corporation Improvement Act of 1991 established a system known as "prompt corrective action." Under the prompt corrective action provisions and implementing regulations, every institution is classified into one of five categories, depending on its total risk-based capital ratio, its Tier 1 risk-based capital ratio, its leverage ratio, and subjective factors. The categories are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A financial institution's operations can be significantly affected by its capital classification. For example, an institution that is not "well capitalized" generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, and the holding company of any undercapitalized institution must guarantee, in part, aspects of the institution's capital plan. Financial institution regulatory agencies generally are required to appoint a receiver or conservator shortly after an institution enters the category of weakest capitalization. The Federal Deposit Insurance Corporation Improvement Act of 1991 also authorizes the regulatory agencies to reclassify an institution from one category into a lower category if the institution is in an unsafe or unsound condition or engaging in an unsafe or unsound practice. Undercapitalized institutions are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance funds.

Limits on Bank Dividends to the Holding Company. National Bancshares's ability to obtain funds for the payment of dividends and for other cash requirements depends on the amount of dividends that may be paid to it by the Bank. Under the National Bank Act and OCC Rule 5.64, without OCC approval a national bank may not pay a cash dividend if the amount of the dividend exceeds retained net income for the year and for the two preceding years (after any required transfers to surplus). A national bank's ability to pay dividends may be affected also by the OCC's capital maintenance requirements. Moreover, regulatory authorities may prohibit banks and bank holding companies from paying dividends if payment of dividends would constitute an unsafe and unsound banking practice.

A 1985 policy statement of the Federal Reserve declares that a bank holding company should not pay cash dividends on common stock unless the organization's net income for the past year is sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality, and overall financial condition.

Transactions with Affiliates. The Bank must comply with section 23A and section 23B of the Federal Reserve Act, pertaining to transactions with affiliates. These statutes are intended to protect banks from abuse in financial transactions with affiliates, preventing federally insured deposits from being diverted to support the activities of unregulated entities engaged in nonbanking businesses. An affiliate of a bank includes any company or entity that controls or is under common control with the bank. Generally, section 23A and section 23B of the Federal Reserve Act –

- limit the extent to which a bank or its subsidiaries may lend to or engage in various other kinds of transactions with any one affiliate to an amount equal to 10% of the bank's capital and surplus, limiting the aggregate of covered transactions with all affiliates to 20% of capital and surplus,
- impose restrictions on investments by a subsidiary bank in the stock or securities of its holding company,
- impose restrictions on the use of a holding company's stock as collateral for loans by the subsidiary bank, and
- require that affiliate transactions be on terms substantially the same or at least as favorable to the institution or subsidiary as those provided to a non-affiliate.

The Bank's authority to extend credit to insiders – meaning executive officers, directors and greater than 10% stockholders – or to entities those persons control, is subject to section 22(g) and section 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these laws require insider loans to be made on terms substantially similar to those offered to unaffiliated individuals, place limits on the amount of loans a bank may make to insiders based in part on the Bank's capital position, and require that specified approval procedures be followed. Loans to an individual insider may not exceed the legal limit on loans to any one borrower, which in general terms is 15% of capital but can be higher in some circumstances. And the aggregate of all loans to all insiders may not exceed the Bank's unimpaired capital and surplus. Insider loans exceeding the greater of 5% of capital or $25,000 must be approved in advance by a majority of the board, with any "interested" director not participating in the voting. Lastly, loans to executive officers are subject to special limitations. Executive officers may borrow in unlimited amounts to finance their children's education or to finance the purchase or improvement of their residence, and they may borrow no more than $100,000 for most other purposes. But loans to executive officers exceeding $100,000 may be allowed if the loan is fully secured by government securities or a segregated deposit account.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977 ("CRA") and implementing regulations of the banking agencies, a financial institution has a continuing and affirmative obligation – consistent with safe and sound operation – to respond to the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services it believes are best suited to its particular community. The CRA requires that bank regulatory agencies conduct regular CRA examinations and provide written evaluations of institutions' CRA performance. The CRA also requires that an institution's CRA performance rating be made public. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. Since the inception of the CRA, banking institutions – particularly the largest banks and savings associations – have faced increasingly difficult regulatory obstacles and public interest group objections in connection with their regulatory applications, including institutions that have received the highest possible CRA ratings.

Although CRA examinations occur on a regular basis, CRA performance evaluations have been used principally in the evaluation of regulatory applications submitted by an institution. CRA performance evaluations are considered in evaluating applications for such things as mergers, acquisitions, and applications to open branches. A bank holding company cannot elect to be a "financial holding company" – with the expanded securities, insurance and other powers that designation entails – unless all of the depository institutions owned by the holding company have a CRA rating of satisfactory or better. Following a CRA examination as of May 31, 2007, the Bank's most recent examination, the Bank received a rating of "Satisfactory."

Monetary Policy. The earnings of financial institutions are affected by the policies of regulatory authorities, including monetary policy of the Federal Reserve. An important function of the Federal Reserve System is regulation of aggregate national credit and money supply. The Federal Reserve accomplishes these goals with measures such as open market transactions in securities, establishment of the discount rate on bank borrowings, and changes in reserve requirements against bank deposits. These methods are used in varying combinations to influence overall growth and distribution of financial institutions' loans, investments and deposits, and they also affect interest rates charged on loans or paid on deposits. Monetary policy is influenced by many factors, including inflation, unemployment, short-term and long-term changes in the international trade balance, and fiscal policies of the United States government. Federal Reserve monetary policy has had a significant effect on the operating results of financial institutions in the past, and it can be expected to influence operating results in the future.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, and, among other things: (a) required executive certification of financial presentations, (b) increased requirements for board audit committees and their members, (c) enhanced disclosure of controls and procedures and internal control over financial reporting, (d) enhanced controls on, and reporting of, insider trading and (e) increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

The legislation and its implementing regulations have resulted in increased costs of compliance, including certain outside professional costs. To date these costs have had a significant impact on our operations, which have included costs to add regulatory support personnel and costs to ensure effectiveness of internal controls and testing.

ITEM 1B – UNRESOLVED STAFF COMMENTS

We have not received any comments from the staff of the Securities and Exchange Commission about our periodic and current reports within the last 180 days and, accordingly, we do not have any unresolved comments from the staff.

ITEM 2 – PROPERTIES

First National Bank operates fourteen full service offices in a market area comprising most of Wayne County, western Stark County, northeastern Holmes County, southern Medina County and southwestern Summit County. The Bank's offices, all of which are owned by First National Bank except as indicated, are –

Location	County	Net Book Value (Dollars in Thousands)
Main Office:		
112 West Market Street	Wayne	$499
Orrville, Ohio 44667		
Other Full-service Offices:		
12 West Main Street	Wayne	$533
Dalton, Ohio 44618		
1320 West High Street	Wayne	$781
Orrville, Ohio 44667		
4934 Kidron Road	Wayne	$795
Kidron, Ohio 44636		
153 East Main Street	Wayne	$613
Smithville, Ohio 44677		
15974 East Main Street	Wayne	$47
Mt. Eaton, Ohio 44659		
7227 Lincoln Way East	Wayne	$118
Apple Creek, Ohio 44606		
1725 Cleveland Road	Wayne	$528
Wooster, Ohio 44691		
4192 Burbank Road	Wayne	$1,194
Wooster, Ohio 44691		

Location	County	Net Book Value (Dollars in Thousands)
211 Lincoln Way East Massillon, Ohio 44646	Stark	$1,428
2312 Lincoln Way N.W. Massillon, Ohio 44647	Stark	$380
106 Ainsworth Street Lodi, Ohio 44254	Medina	$292
4885 Atlantic Drive Seville, Ohio 44667	Medina	$1,062
3085 West Market Street Fairlawn, OH 44303 (leased location)	Summit	$122
Cash ATM Only:		
1720 North Main Street Orrville, OH 44667	Wayne	$125
51 Massillon Marketplace Drive S.W. Massillon, OH 44646 (leased location)	Stark	$0
Operations Center:		
1444 North Main Street Orrville, OH 44667	Wayne	$516

At December 31, 2009 the net book value of the Bank's investment in premises and equipment totaled $9.0 million. The Bank's electronic data processing functions are performed under contract with an electronic data processing services firm that performs services for financial institutions throughout the Midwest.

ITEM 3 – LEGAL PROCEEDINGS

From time to time the Bank is involved in various legal proceedings that are incidental to its business. In the opinion of management, based upon information currently available to us, no current legal proceedings are material to the financial condition of National Bancshares or the Bank, either individually or in the aggregate and are not likely to have a material adverse effect on our consolidated financial position, results of operations or cash flows. This statement represents a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from management's opinion based on a variety of factors, including the uncertainties involved in the proof of legal and factual matters in legal proceedings.

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of National Bancshares' shareholders during the fourth quarter of 2009.

Part II

ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Incorporated by reference to "Price Range of Common Stock" appearing on page 54 of National Bancshares's Annual Report 2009. National Bancshares had 876 shareholders of record as of March 5, 2010.

Because National Bancshares is dependent on its Bank subsidiary for earnings and funds necessary to pay dividends, the ability of National Bancshares to pay dividends to its shareholders is subject to bank regulatory restrictions. *See*, "Supervision and Regulation – Limits on Bank Dividends to the Holding Company."

Incorporated by reference to "Comparison of Five-Year Cumulative Total Return Of National Bancshares Corporation, S&P 500 Stock Index, and S&P 500 Bank Index" appearing on page 53 of National Bancshares Corporation's Annual Report 2009.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Restricted stock awards issued in 2009	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by the security holders	53,000 (1)	3,605 (2)	166,843
Equity compensation plans not approved by the security holders	0	0	0
Total	53,000	3,605	166,843

(1) Weighted-average exercise price of outstanding options, warrants and rights is $18.03
(2) The fair value of the stock award was determined to be $14.01 per share using the closing market price of National Bancshares' common stock on the date of the grant.

A description of the equity compensation plan is incorporated by reference to "Note 13 – Stock-Based Compensation" appearing on page 43 of National Bancshares's Annual Report 2009.

Issuer Purchase and Sales of Equity Securities

No equity securities of National Bancshares were repurchased or sold by it during 2009.

ITEM 6 – SELECTED FINANCIAL DATA

Incorporated by reference to "Selected Financial Data" appearing on pages 6 and 7 of National Bancshares's Annual Report 2009.

ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference appearing on pages 8 through 25 of National Bancshares's Annual Report 2009.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning the interest-rate risks to which First National Bank's assets and liabilities are exposed is contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on pages 20 and 21 of National Bancshares's Annual Report 2009.

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm are incorporated by reference from pages 26 through 51 of National Bancshares's Annual Report 2009.

ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in or disagreements with the independent accountants have occurred in the two most recent fiscal years or since the end of December 31, 2009.

ITEM 9AT – CONTROLS AND PROCEDURES

With the participation of the President and the Chief Executive Officer, and the Chief Financial Officer, management carried out an evaluation of the effectiveness of the design and operation of National Bancshares's disclosure controls and procedures as of the end of 2009. Based upon that evaluation, the President and Chief Executive Officer, and the Chief Financial Officer concluded that as of December 31, 2009 National Bancshares's disclosure controls and procedures were effective (1) to ensure that information required to be disclosed by National Bancshares in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) in timely alerting them to material information of National Bancshares (including First National Bank) required to be included in this annual report on Form 10-K. During the fourth quarter of 2009 there were no changes in National Bancshares's internal controls over financial reporting that have materially affected or are reasonably likely to affect National Bancshares's internal controls over financial reporting.

The report of Management on the Corporations's Internal Control Over Financial Reporting is incorporated by reference on page 52 of National Bancshares's Annual Report 2009.

ITEM 9B – OTHER INFORMATION

None

Part III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning the directors of National Bancshares is incorporated by reference from pages 4 through 7 of the definitive proxy statement for the 2010 annual meeting of shareholders, filed or to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009. Disclosure by National Bancshares about directors' and executive officers' compliance with Section 16(a) of the Securities Exchange Act of 1934 appears on page 16 of the proxy statement for the 2010 annual meeting, and it is incorporated herein by reference.

The executive officers of National Bancshares and First National Bank are -

Name	Age	Position
David C. Vernon	69	President and Chief Executive Officer of National Bancshares Corporation and First National Bank. He served as Chairman Emeritus of Central Federal Corporation from February 28, 2008 until April 8, 2009; and its wholly owned subsidiary CFBank, a federally chartered savings association headquartered in Fairlawn in Summit County, Ohio from February 28, 2008 until May 15, 2008. He served as a director and Vice-Chairman of Central Federal Corporation and CFBank from January 1, 2006 until February 28, 2008. He served as Chairman of Central Federal Corporation and CFBank from January 2003 until January 1, 2006. He also served as Central Federal Corporation's and CFBank's Chief Executive Officer in 2003 and 2004 and as President of both companies from March 2003 to January 2005. Before joining Central Federal and CFBank, he was Chairman, President and Chief Executive Officer of Founders Capital Corporation in Akron, Ohio from September 2002 to February 2003; a Strategic Planning Consultant to Westfield Bank in Westfield, Ohio from May 2000 to July 2002; a Consultant to Champaign National Bank in Urbana, Ohio from July 1999 to April 2002; and a Consultant to First Place Bank in Warren, Ohio from April 1999 to February 2001. In February 1999, Mr. Vernon retired as Chairman, President and Chief Executive Officer of Summit Bank, an Akron-area community bank he founded in January 1991.
James R. VanSickle	39	Senior Vice President and Chief Financial Officer of National Bancshares Corporation and Senior Vice President and Chief Financial Officer of First National Bank since June 2007. Mr. VanSickle is the principal financial and accounting officer. Prior to joining First National Bank, he worked with Crowe Chizek and Company LLC as and Executive in the firm's Financial Institutions Group. He joined Crowe in 1992 and was promoted to Executive in 2003.
Thomas R. Poe	55	Senior Vice President and Senior Loan Officer of First National Bank since January 2009. Mr. Poe has worked for National City Bank, National City Commercial Finance, Inc., GMAC Commercial Finance, Structured Finance Division, and MidCap Business Credit, L.L.C. He has over 30 years experience in banking focusing on commercial and asset-based lending.
Steven L. Riddick	61	Vice President and Senior Credit Officer of First National Bank since October 2006. Previously, Mr. Riddick served as Vice President, Commercial Banking and Branch Manager, Seville Office of First National Bank.
Paul G. Kubiak	49	Vice President, Retail Banking for First National Bank since April 2009. Prior to this, Mr. Kubiak was Vice President of Client Services and Operations since 2007 and Vice President of Client Services and a business development officer for the Bank since March 2004. Prior to joining the Bank, he served as Manager of Customer Service for Bekaert Contours and Contours, Ltd., a manufacturing firm in Orrville, Ohio.

There are no family relationships among any of the executive officers.

National Bancshares has adopted a Code of Business Conduct and Ethics applicable to all of our directors and employees, including the principal executive officer. We have also adopted a Code of Ethical Conduct for the Finance Officers and Finance Department Personnel applicable to all finance department personnel, including our principal executive, financial and accounting officers.

National Bancshares's Board of Directors has determined that it has at least one "audit committee financial expert" serving on the Audit Committee. National Bancshares considers Director John Cook, CPA, Ph. D. to be an Audit Committee Financial Expert, based on his experience as partner in an accounting firm. Information regarding the Audit Committee is incorporated by reference to pages 9 and 10 of National Bancshares' Proxy Statement for the 2010 annual meeting, under the caption "Audit Committee" and "Audit Committee Report."

ITEM 11 – EXECUTIVE COMPENSATION

Incorporated by reference from pages 13 and 14 of the definitive Proxy Statement for the 2010 annual meeting of shareholders, filed or to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009.

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from page 3 of the definitive Proxy Statement for the 2010 annual meeting of shareholders, filed or to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009.

ITEM 13 – CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Incorporated by reference from page 16 of the definitive Proxy Statement for the 2010 annual meeting of shareholders, filed or to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from page 8 of the definitive Proxy Statement for the 2010 annual meeting of shareholders, filed or to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2009.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are included in this document in Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets at December 31, 2009 and 2008
- Consolidated Statements of Income for the Years Ended December 31, 2009, 2008, and 2007
- Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2009, 2008, and 2007
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2008, and 2007
- Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

Financial Statement Schedules have been omitted because they are not applicable or the required information is shown elsewhere in the document in the Financial Statements or Notes thereto, or in the Management's Discussion and Analysis of Financial Condition and Results of Operations section.

(a)(3) Exhibits

See the list of exhibits below

(b) Exhibits Required by Item 601 of Regulation S-K

Exhibit Number	Description	Location
3.1	Amended Articles of Incorporation	Incorporated by reference to the identically numbered exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 26, 2004
3.	Amended By-Laws	Incorporated by reference to the identically numbered exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on March 28, 2008
10.1*	Directors' Defined Benefit Plan Agreement	Incorporated by reference to the identically numbered exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed on March 29, 2001
10.2*	Employment Agreement entered into by David C. Vernon and National Bancshares and First National Bank	Incorporated by reference on Form 8-K dated November 27, 2007.
10.3*	Employment Agreement entered into by James R. VanSickle and National Bancshares and First National Bank	Incorporated by reference on Form 8-K dated June 19, 2007.
10.4*	Special Separation Agreement entered into by Thomas R. Poe and National Bancshares and First National Bank	Incorporated by reference on Quarterly Report 10-Q filed November 16, 2009

(b) Exhibits Required by Item 601 of Regulation S-K (continued)

Exhibit Number	Description	Location
13	2009 Annual Report to Security Holders	Filed herewith
14.1	Code of Business Conduct and Ethics	Filed herewith
14.2	Code of Ethical Conduct for Finance Officers	Filed herewith
21	Subsidiaries	Filed herewith
23	Consent of Crowe Horwath LLP	Filed herewith
31.1	Certification of Chief Executive Officer under Sarbanes-Oxley Act Section 302	Filed herewith
31.2	Certification of Chief Financial Officer under Sarbanes-Oxley Act Section 302	Filed herewith
32	Certification pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ David C. Vernon
David C. Vernon
President and Chief Executive Officer

Date: March 30, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ David C. Vernon David C. Vernon President, Chief Executive Officer, and Director	March 30, 2010
/s/ James R. VanSickle James R. VanSickle, Sr. Vice President & Chief Financial Officer (Principal Accounting and Financial Officer)	March 30, 2010
/s/ Sara E Steinbrenner Balzarini Sara E. Steinbrenner Balzarini, Director	March 30, 2010
/s/ John Cook, CPA, Ph. D. John Cook, CPA, Ph. D., Director	March 30, 2010
/s/ Bobbi E. Douglas Bobbi E. Douglas, Director	March 30, 2010
/s/ John W. Kropf John W. Kropf, Director	March 30, 2010
/s/ John L. Muhlbach, Jr John L. Muhlbach, Jr., Director	March 30, 2010
/s/ Victor B. Schantz Victor B. Schantz, Director	March 30, 2010
/s/ Stephen W. Schmid Stephen W. Schmid, Director	March 30, 2010
/s/ James R. Smail James R. Smail, Director	March 30, 2010
/s/ Howard J. Wenger Howard J. Wenger, Director	March 30, 2010
/s/ Albert W. Yeagley Albert W. Yeagley, Director	March 30, 2010

Exhibit 13

National Bancshares Corporation
Annual Report to Security Holders
for the year ended
December 31, 2009

(See Attached)

TABLE OF CONTENTS **Exhibit 13**

(This page left intentionally blank)

Dear Shareholders:

We continued to make progress in 2009 even though earnings declined 27% from $1.00 per share to $0.73 per share. Any earnings decline is a disappointment, but 2009 was a very unusual year. Actually, we could characterize 2009 as the “exclamation point” on the “bubble decade.” Some have referred to the last ten years as the lost decade. Whatever we choose to call it, all of us know we are living in a very challenging economic environment.

When our clients suffer financially, we suffer. In our business, “we feel your pain” is not a cliché. People without jobs can not make loan payments. Retail merchants who suffer a decline in business can not make rent or mortgage payments. Businesses who suffer a decline in sales can not make loan payments. Millions of people have lost jobs and in some parts of the United States real estate values have been cut in half.

In 2009, we witnessed a record number of personal bankruptcies and business failures. As a result we made the prudent decision to increase the provision for loan losses by over $1 million from $482 thousand in 2008 to $1.8 million in 2009. This increased provision also directly reduced net income. An end to the current economic malaise is not in sight and we intend to continue making an increased provision to the allowance for loan losses in 2010.

In 2009, we witnessed “too big to fail” brokerage firms, insurance companies and banks being bailed out by the Federal Government. Community banks, on the other hand, were not treated in similar fashion. Community banks were allowed to fail and many of them did. The cost of those failures caused the FDIC to increase the cost for deposit insurance. In 2009, our FDIC insurance premium increased from $35 thousand in 2008 to $605 thousand, an increase of $570 thousand. This increase in the cost for FDIC insurance directly reduces net income. Please take some time to review the financial statements and footnotes contained in this Annual Report for more details about our 2009 financial results.

Now let’s discuss some good news. In 2009, net interest income increased nearly $1 million. The volume of new loans in 2009 set a record. New commercial loans totaled $52 million and commercial loan fee income increased from $72 thousand in 2008 to $291 thousand in 2009. Our new Fairlawn office originated $27 million in new commercial loans, many of them in Wayne and Stark counties, in just seven months. Income from originating mortgage loans increased from $19 thousand in 2007 and $126 thousand in 2008 to $353 thousand in 2009. In an effort to underscore the fact that we are ready and willing to make loans, it is now possible for anyone to apply for a loan and talk with a loan consultant 24/7.

In 2009, we significantly increased the sale of business cash management and remote deposit services which make it possible for local businesses to deposit checks electronically from their offices and eliminate the need to make a trip to the bank. In the past four months local businesses made remote electronic deposits totaling $58 million. Hundreds of our business customers are now using the many new services we have introduced in the last two years.

In 2009, we introduced Bonus Checking, a service for customers who use our debit card, make deposits electronically, use our bill pay service and receive their statement electronically. Bonus Checking earns an annual percentage yield of 4.02% on the entire balance up to $25 thousand. We also introduced a Health Savings Account with a Debit Card which makes it much easier for clients to use the account for medical expenses.

Our new Seville office opened in February, our Fairlawn office opened in May and the downtown Massillon, West High in Orrville, Smithville and Dalton offices were remodeled to incorporate all of the design elements of our office rebranding project.

In many ways, 2009 was a dreadful year but the positives far outweigh the negatives. This is a tough economic environment, but the difficulties we face are less severe than what we witness each day in other parts of our country and the world. We are surely blessed because our Bank is strong. We have an outstanding and dedicated Board of Directors, and the best staff and management team any community bank could possibly assemble. Most importantly, we have the support of you, our shareholders.

Thank you for your interest in National Bancshares Corporation and First National Bank. All of the Directors, Officers and staff appreciate your support.

David C. Vernon
President and CEO

Last year at the annual meeting, Donna Dale Davis, one of our long time shareholders and 2005 Orrville Citizen of the Year, suggested we let everyone know about our charitable giving. In 2009, the Charitable Giving Committee of the Board of Directors approved gifts to the following organizations. Thank you for the great suggestion, Donna Dale.

Boy Scouts of America
Central Christian High School Building
Every Woman's House
First National Bank Scholarship (Wayne County Community Foundation)
Heartland Education Community, Inc.
ICAN Housing Solutions
Kidron Community Historical Society
Kidron United Fund
Main Street Wooster, Inc.
Massillon Boys and Girls Club
Massillon Chamber of Commerce
Newspapers in Education
Orrville Area Boys and Girls Club
Orrville Chamber of Commerce
Orrville Community Chorus
Orrville-Dalton YMCA
Orrville Public Library
Orrville School Multi-Purpose Facility
Orrville United Way, Inc.
Paint Township Area Fireworks
Smithville Community Historical Society
STEPS (FKA Wayne County Alcoholism Services)
United Way of Wayne and Holmes Counties
United Way of Western Stark County
Village Network (FKA Boy's Village)
Wayne College Capital Campaign
Wayne Development Council
Wayne/Holmes Soap Box Derby
Wooster Chamber of Commerce
Wooster Jazz Arts Festival
Wooster/Orrville NAACP
Young Life of Wayne County

Special thanks to the following local companies who have helped us with the rebranding and remodeling of our offices.

Kidron Electric
Marshall Construction
RBS Construction
Northstar Asphalt
Orrville Plumbing and Heating
Benchmark Craftsmen
Adams Signs

FINANCIAL HIGHLIGHTS

These financial highlights are excerpts of and are not a substitute for National Bancshares Corporation's consolidated financial statements, including notes, and other detailed financial information we provide elsewhere in this document. You should read the entire document, including the Financial Review and the consolidated financial statements and notes to the consolidated financial statements.

Financial Position
(Dollar amounts in thousands, except per share data)

At December 31,	2009	2008	Percentage Change
Total assets	$ 370,228	$ 338,002	9.5 %
Deposits	291,373	263,642	10.5 %
Loans, net	194,071	179,831	7.9 %
Securities	130,241	127,248	2.4 %
Shareholders' equity	38,903	36,881	5.5 %
Book value per share	17.64	16.75	5.3 %
Year ended December 31,			
Net interest income	$ 12,228	$ 11,286	8.3 %
Income before income taxes	2,007	2,964	(32.3)%
Net income	1,609	2,194	(26.7)%
Cash dividends declared	705	1,404	(49.8)%
Net income per share	0.73	1.00	(27.0)%
Cash dividends per share	0.32	0.64	(50.0)%

National Bancshares Corporation is the holding company for First National Bank, a federally chartered national bank formed in Ohio in 1881. First National Bank has fourteen offices in Orrville, Massillon, Wooster, Apple Creek, Dalton, Fairlawn, Kidron, Lodi, Mt. Eaton, Seville and Smithville. Additional information is available at www.discoverfirstnational.com.

SELECTED FINANCIAL DATA

(Dollar amounts in thousands, except per share data)

	As of or for the years ended December 31,				
	2009	2008	2007	2006	2005
Income statement data:					
Interest income	$ 16,465	$ 17,071	$ 17,832	$ 17,157	$ 16,075
Interest expense	4,237	5,785	6,968	5,995	4,128
Net interest income	12,228	11,286	10,864	11,162	11,947
Provision for loan losses	1,829	482	147	160	159
Net interest income after provision for loan losses	10,399	10,804	10,717	11,002	11,788
Noninterest income	2,972	2,333	1,990	1,653	1,801
Noninterest expense	11,364	10,173	10,500	11,354	10,986
Income before income taxes	2,007	2,964	2,207	1,301	2,603
Income taxes	398	770	496	137	503
Net income	1,609	2,194	1,711	1,164	2,100
Balance sheet data:					
Cash and due from banks	$ 8,124	$ 11,001	$ 11,842	$ 8,955	$ 10,985
Federal funds sold	-	-	443	9,820	8,780
Securities	130,241	127,248	84,514	86,000	77,009
Loans, net	194,071	179,831	191,488	184,481	191,538
Deposits	291,373	263,642	242,523	247,681	249,488
Borrowings	36,720	34,285	26,374	22,744	19,952
Shareholders' equity	38,903	36,881	34,991	34,680	34,653
Total assets	370,228	338,002	306,651	308,358	306,881
Share and per share data:					
Net income	$ 0.73	$ 1.00	$ 0.77	$ 0.52	$ 0.94
Cash dividends	0.32	0.64	0.64	0.64	0.64
Book value at period end	17.64	16.75	15.85	15.52	15.51
Weighted average number of shares outstanding	2,202,457	2,203,218	2,231,369	2,234,488	2,234,488
Performance ratios:					
Return on average equity	4.21%	6.20%	4.94%	3.29%	5.90%
Return on average assets	0.46%	0.70%	0.56%	0.38%	0.70%
Dividend payout percentage	43.82%	64.00%	83.58%	122.87%	68.10%
Efficiency ratio (1)	74.76%	74.70%	81.69%	88.60%	79.91%
Full-time equivalent staff	101	108	105	132	135
Average total assets to full-time equivalent staff	$ 3,491	$ 2,916	$ 2,903	$ 2,296	$ 2,234
Asset quality ratios:					
Allowance for loan losses to ending total loans	1.48%	0.95%	1.05%	1.07%	0.98%
Net loan charge-offs to average loans	0.35%	0.41%	0.06%	0.03%	0.01%
Capital ratios:					
Average equity to average assets	10.84%	11.24%	11.35%	11.66%	11.81%
Leverage ratio (2)	7.40%	7.78%	8.26%	8.57%	9.76%
Total risk-based capital ratio (2)	12.46%	12.60%	12.78%	13.26%	14.45%

(1) The efficiency ratio is calculated by dividing noninterest expenses by the sum of net interest income and noninterest income.

(2) First National Bank ratios computed in accordance with regulatory guidelines.

SELECTED FINANCIAL DATA

The following table shows quarterly results of operations for 2009 and 2008.

	Interest income	Net interest income	Provision for loan losses	Income before income taxes	Net income	Basic and diluted earnings per share
	(Dollar amounts in thousands, except per share data)					
2009						
First quarter	$ 4,208	$ 2,993	$ 123	$ 780	$ 573	$ 0.26
Second quarter	4,149	3,013	228	596	454	0.21
Third quarter	4,026	3,072	576	285	267	0.12
Fourth quarter	4,082	3,150	902	346	315	0.14
2008						
First quarter	$ 4,270	$ 2,744	$ 187	$ 660	$ 491	$ 0.22
Second quarter	4,196	2,763	71	685	514	0.23
Third quarter	4,294	2,843	126	778	574	0.26
Fourth quarter	4,311	2,936	98	841	615	0.28

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of the annual report is intended to assist the reader in evaluating the performance of National Bancshares Corporation for the years ended December 31, 2009, 2008 and 2007. This information should be read in conjunction with the consolidated financial statements and accompanying notes to the financial statements.

Forward Looking Statement

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. Forward-looking statements can be identified by terminology such as "believes," "expects," "anticipates," "estimates," "intends," "should," "will," "plans," "potential" and similar words. Forward-looking statements are also statements that are not statements of historical fact. Forward-looking statements necessarily involve risks and uncertainties. They are merely predictive or statements of probabilities, involving known and unknown risks, uncertainties and other factors. If one or more of these risks or uncertainties occurs or if the underlying assumptions prove incorrect, actual results in 2010 and beyond could differ materially from those expressed in or implied by the forward-looking statements.

Forward-looking statements are based upon a variety of estimates and assumptions. The estimates and assumptions involve judgments about a number of things, including future economic, competitive, and financial market conditions and future business decisions. These matters are inherently subject to significant business, economic, and competitive uncertainties, all of which are difficult to predict and many of which are beyond National Bancshares Corporation's control. Although we believe the estimates and assumptions are reasonable, actual results could vary materially from those shown. Inclusion of forward-looking information does not constitute a representation by National Bancshares Corporation or any other person that the indicated results will be achieved. You are cautioned not to place undue reliance on forward-looking information.

Management Strategy

The Corporation is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves. The Corporation attracts deposits from the general public and uses such deposits, together with borrowings and other funds, primarily to originate commercial and commercial real estate loans, single-family and multi-family residential mortgage loans, home equity loans and lines of credit and consumer loans.

During 2009, the Corporation continued to execute a plan, which was implemented in December 2006. The plan focuses on four critical areas. These areas are first; enhancing services for depositor clients, second; strengthening regulatory compliance, third; enhancing the Corporation's ability to originate loan assets and fourth; reducing costs and increasing noninterest income.

In the first half of 2008, the Corporation introduced "Platinum Checking", a high-interest checking account for clients with balances above $10 thousand. The Platinum Checking account product accounted for $45.0 million or 15.4% of total deposits at December 31, 2009. In November 2008, the Corporation introduced "Bonus Checking", an account that pays bonus interest to clients that use our Visa debit card, bill pay services, receive their account statement online, and make at least one electronic direct deposit. The Bonus Checking account product accounted for $2.1 million of deposits at December 31, 2009. In 2009, the Corporation introduced "Mobile Banking", a program which allows customers to receive text message alerts regarding account balances and allows clients to access online banking accounts through the use of a cell phone internet browser.

Loans, net of allowance for loan losses increased $14.3 million from year-end 2008 to year-end 2009. The loan demand in the Bank's primary market remains soft. However, the Bank has been able to achieve loan growth by taking advantage of the opportunity to lend to businesses in search of a bank that will be responsive to their credit needs as other banks have tightened lending requirements. The Bank opened a full-service office in Fairlawn, Ohio in May, 2009. The office is staffed by four business bankers and one corporate services specialist, who are focused on the sale of business financial services in Summit and Cuyahoga counties. The Fairlawn office has generated over $27 million in loans and over $2.2 million in deposits since opening.

The Corporation initiated an office rebranding project in the second half of 2008. The Seville Office was moved from a leased location to a new Bank-owned facility in February 2009 as part of the project. The Corporation has completed the remodeling of the Burbank Road (Wooster), Smithville, West High (Orrville), Downtown Massillon and Dalton offices as of December 31, 2009.

Office of the Comptroller of the Currency ("OCC") regulations require banks to maintain certain minimum levels of regulatory capital. Additionally, the regulations establish a framework for the classification of banks into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a core (Tier 1) capital ratio of at least 5.0% (based on adjusted total assets); a core (Tier 1) risk-based capital ratio of a least 6.0%; and a total risk-based capital ratio of at least 10.0%. The Bank had capital ratios above the well-capitalized levels at December 31, 2009 and December 31, 2008.

The Corporation is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on liquidity, capital resources or operations. The Corporation is not aware of any current recommendations by its regulators which would have a material effect if implemented. The Corporation has not engaged in sub-prime lending activities and does not plan to engage in those activities in the future.

Financial Condition

Total assets increased 9.5% to $370.2 million as of December 31, 2009, from $338.0 million at December 31, 2008. Securities available for sale totaled $130.2 million as of December 31, 2009, compared to $127.2 million at December 31, 2008. Loans, net of allowance for loan losses increased $14.3 million to $194.1 million as of December 31, 2009, compared to $179.8 million at December 31, 2008. Deposits increased 10.5% to $291.4 million as of December 31, 2009, compared to $263.6 million at December 31, 2008. Shareholders' equity increased 5.4% to $38.9 million at the end of 2009, from $36.9 million at the end of 2008. Accumulated other comprehensive income increased to $2.5 million as of December 31, 2009, compared to $1.5 million as of December 31, 2008. The change in accumulated other comprehensive income was a result of an increase in unrealized gains on securities available for sale.

Loans

Total loans increased by $15.6 million or 8.6% from year-end 2009 to year-end 2008. The Bank continues to focus its efforts on attracting commercial loan business. Commercial and commercial real estate loans increased $18.3 million during 2009. The Bank's loan portfolio consists of $154.5 million loans secured by real estate, which represents 78.2% of total loans as of December 31, 2009.

First National Bank's loan policy provides for a loan mix up to 60% of total loans for commercial loans, up to 40% of total loans for consumer loans, up to 60% of total loans for residential real estate loans and up to 200% of total capital for commercial real estate loans. The loan to deposit ratio will not exceed 90%.

The Bank purchased $1.2 million of automobile loans from another Ohio bank during 2009. All of the purchased loans were underwritten individually using the same underwriting standards used for loans generated in our offices.

Loan portfolio composition at December 31,

	2009		2008		2007		2006		2005	
	$	%	$	%	$	%	$	%	$	%
	(Dollar amounts in thousands)									
Real estate:										
Commercial	$ 65,139	33%	$ 48,034	27%	$ 51,463	27%	$ 45,737	25%	$ 47,638	25%
Residential	50,390	26%	54,924	30%	80,113	41%	86,652	46%	91,592	47%
Home equity	26,526	13%	24,442	13%	20,857	11%	19,383	10%	19,045	10%
Construction(1)	12,395	6%	12,846	7%	8,367	4%	6,079	3%	6,440	3%
	154,450	78%	140,246	77%	160,800	83%	157,851	84%	164,715	85%
Consumer	12,343	6%	14,354	8%	11,988	6%	7,522	4%	6,205	3%
Commercial	26,792	14%	25,583	14%	17,552	9%	18,519	10%	20,046	10%
Credit cards	-	0%	-	0%	1,614	1%	1,521	1%	1,406	1%
Other	3,830	2%	1,658	1%	1,987	1%	1,609	1%	1,566	1%
Total loans	197,415	100%	181,841	100%	193,941	100%	187,022	100%	193,938	100%
Less:										
Unearned and deferred income	(438)		(292)		(425)		(548)		(496)	
Allowance for loan losses	(2,906)		(1,718)		(2,028)		(1,993)		(1,903)	
Net loans	$194,071		$179,831		$191,488		$184,481		$191,539	
Net loans as a percent of total assets	52.42%		53.20%		62.45%		59.83%		62.41%	

(1) - Includes land development.

Ranked by North American Industry Classification System – or NAICS – codes, the industries most represented by First National Bank's commercial borrowers include lessors of residential buildings and dwellings and lessors of non-residential buildings, in that order, accounting for 10.5% and 9.5% of the total loans at year-end 2009, respectively.

Approximately 53% of the conventional mortgage loans secured by 1-4 family real estate are long term fixed interest rate loans. The majority of loans added to First National Bank's portfolio, by the 2002 acquisition of Peoples Federal, were fixed-rate residential mortgage loans, but the number of such loans has declined since the merger as the fixed-rate mortgages have been refinanced or paid off. Approximately 47% of the portfolio of conventional mortgage loans secured by 1-4 family and multifamily real estate at year-end 2009 consisted of adjustable rate loans. First National Bank's fixed-rate conventional mortgage loans are originated with loan documentation that permits their sale in the secondary market. The Bank's policy is to classify all fixed-rate mortgage loans as "Held for Sale" or "Held for Portfolio" at the time the loans are originated within various scenarios and classifications set by the Bank. The classification is based upon several factors such as the Bank's interest rate risk position, the loan's interest rate and term, the Bank's liquidity position, the interest rate environment and general economic conditions.

Allowance for Loan Losses

As explained in Note 1 of the consolidated financial statements, the allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and recoveries, and decreased by charge-offs. The allowance for loan losses is the sum of components recognized and measured either: (1) according to Accounting Standards Codification (ASC) 450-10-05, "Accounting for Contingencies," for pools of homogenous loans, or (2) according to ASC 310-10-35, "Accounting by Creditors for Impairment of a Loan," for loans the Bank considers impaired based upon individual loan review. Management determines the necessary allowance balance using the Bank's loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

Loans Analyzed Individually

Determining the loan loss allowance begins with the Bank's assessment of credit risk for loans analyzed individually. Individual loans are assigned credit-risk grades based on the Bank's assessment of conditions affecting a borrower's ability to satisfy its contractual obligation under the loan agreement. The assessment process includes reviewing a borrower's current financial information, historical payment experience, credit documentation, public information, and other information specific to each borrower. Loans reviewed individually are reviewed at least annually or more frequently if management becomes aware of information affecting a borrower's ability to fulfill its obligation. All loans over $250 thousand or to customers whose aggregate total borrowing exceeds $250 thousand are reviewed individually, except for first mortgage loans on a borrower's personal residence. Loans or customers with balances under $250 thousand may also be reviewed individually if considered necessary by the board and management. All commercial lending relationships over $100 thousand are ranked according to risk at least annually. Risk rankings also change at any point during the year if the creditworthiness of a borrower changes. In addition, risk ratings are reviewed annually by a qualified independent third party. The independent third party reviews all aggregate loan relationships of $250 thousand or greater along with a sampling of loan relationships between $100 thousand and $250 thousand. Loans analyzed individually are ranked as follows:

Loans Graded 1, 2, 3 and 4 are loans that are considered satisfactory, with lower than average risk and low probability of serious financial deterioration on the borrower's part.

Loans Graded 5 ("Watch") are performing according to the terms of the loan agreement but that nevertheless require enhanced management supervision because of factors such as an unusual payment history or a deterioration in the borrower's financial condition.

Loans Graded 6 ("Special Mention") have more than average risk, with identified potential weaknesses that deserve management's close attention. Left uncorrected, the potential weaknesses could result in deterioration of repayment prospects. In the case of a commercial borrower, for example, potential weaknesses could include adverse trends in the borrower's operations or adverse economic or market conditions that could affect the borrower in the future.

Loans Graded 7 ("Substandard") are inadequately protected by the current financial condition and paying capacity of the borrower or by the collateral securing the loan. Substandard loans have a well-defined weakness or weaknesses jeopardizing collection of the debt in full, with a distinct possibility of loss if the weakness or weaknesses are not corrected. Loans may be classified substandard even if payments are not 90 days or more past due. Loans 90 days or more past due are classified as substandard or lower unless the loan is adequately collateralized and in the process of collection.

Loans Graded 8 ("Doubtful") have all the weaknesses inherent in those classified as substandard, with the added characteristic that existing facts, conditions and values make collection or liquidation in full highly questionable and improbable. The possibility of loss is extremely high, but because of factors that could work to the borrower's advantage classification of the "doubtful" loan as "loss" is deferred.

Loans Graded 9 ("Loss") are those considered uncollectible or portions of loans that are considered uncollectable. Loans in this category are charged-off by management.

If it is probable that the Bank will be unable to collect all principal and interest due on a commercial or non-homogenous loan then that loan is considered impaired. Management measures the amount of impairment using the loan's expected future cash flows (discounted at the loan's effective interest rate), or the fair value of the underlying collateral if loan repayment is expected to come from the sale or operation of the collateral. First National Bank considers commercial or non-homogenous loans graded doubtful or loss to be impaired. Some loans graded substandard are considered impaired. Special mention and watch loans are not considered to be impaired. Impairment is evaluated in total for smaller-balance loans of similar type and purpose – such as residential mortgage and consumer, – and on an individual loan basis for other loans (other loans consists of loans to non-profit organizations and loans collateralized with cash). If a loan is impaired, a portion of the loan loss 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. Increases in the allowance for loan losses are made by expensing a provision for loan losses. No specific provision for loan losses expense would result if an individually reviewed loan is graded higher than "watch", but such loans are included in the pools of loans analyzed under ASC 450-10-05. Loans classified "special mention" or "substandard", and smaller-balance loans classified "doubtful" are assigned a provision based upon a historical migration analysis performed on classified loans. The migration analysis identifies the percentage of classified loans by category that has historically been ultimately charged-off. The migration percentages are reviewed and adjusted by management to reflect various factors such as the growth and change in mix of the loan portfolio and the regulator's guidelines. Loans ranked "loss" are charged off in their entirety because at that point the unconfirmed loss that the loan loss allowance is intended to approximate is considered to be confirmed.

As of December 31, 2009, 2008 and 2007 classified assets were as follows:

	Classified assets at December 31,					
	2009		2008		2007	
	Amount	Percent of total loans	Amount	Percent of total loans	Amount	Percent of total loans
	(Dollar amounts in thousands)					
Classified loans:						
Special mention	$ 2,841	1.4%	$ 3,294	1.8%	$ 401	0.2%
Substandard	11,783	6.0%	3,874	2.1%	4,839	2.5%
Doubtful	-	0.0%	-	0.0%	79	0.0%
Loss	-	0.0%	-	0.0%	-	0.0%
Total classified loans	14,624	7.4%	7,168	3.9%	5,319	2.7%
Other real estate owned	104	0.1%	354	0.2%	194	0.1%
Total classified assets	$ 14,728	7.5%	$ 7,522	4.1%	$ 5,513	2.8%

Pools of Loans Analyzed under ASC 450

The total loan loss allowance is derived both from analysis of individual impaired loans under ASC 310-10-35 and analysis of aggregated pools of loans under ASC 450. Smaller balance loans (such as automobile or home equity loans, for example), groups of loans (such as residential mortgage loans), and less severely classified loans reviewed individually may be analyzed on an aggregated or pooled basis under ASC 450.

Under ASC 450, loans are segmented into groups of loans having similar risk characteristics based on purpose, loan type, and collateral, for example residential mortgage loans, home equity loans, and consumer loans. Losses inherent in pools of loans are estimated using average historical losses over a period of years for loans of those types, but with adjustments to account for changes in loan policies, changes in underwriting or loan recovery practices, changes in prevailing economic conditions, changes in the nature or volume of the loan portfolio, and changes in other internal and external factors. Loans secured by real estate – particularly residential mortgage loans – generally have less credit risk than other types of loans.

Changes in the Allowance for Loan Losses and Classified Assets

An effective loan review function is vital to the establishment of an appropriate loan loss allowance. Loan officers and the Bank's credit analysts are responsible for the assignment of risk ratings for loans reviewed individually. Each quarter, a committee consisting of the Bank's Chief Financial Officer and Senior Credit Officer evaluates the loan loss allowance and reports the results of its evaluation to senior management and the Bank's board. The Bank adjusts its loan loss allowance methodologies retrospectively as well, making adjustments in its estimates and assumptions as necessary to account for variances of estimated loan losses from actual loan loss experience. The Bank's determination about classification of its assets and the amount of its allowances is subject to review by the Office of the Comptroller of the Currency (OCC), which may order the establishment of additional loss allowances.

First National Bank's allowance for loan losses increased $1.2 million during the year to $2.9 million as of December 31, 2009. The allowance for loan losses to total loans was 1.48% at December 31, 2009. This is an increase of 53 basis points when compared to December 31, 2008. The percentage of the allowance for loan losses to total loans was 0.95% at December 31, 2008. Total nonperforming loans have increased from $2.0 million as of December 31, 2008 to $5.2 million at December 31, 2009. In 2009, total classified loans increased from $7.2 million to $14.6 million or 102.8%. A stagnant local economy and marginal deterioration of the financial position of some of the Bank's commercial borrowers led to more loans being classified.

Loan review and monitoring is integral to effective credit administration and risk management. In order to minimize the credit risk inherent in the lending process, management and the Board of Directors has adopted a more formal and systematic approach with credit administration and loan review. As part of this systematic approach, a qualified independent third party was engaged to perform loan reviews in both 2009 and 2008. Management intends to continue this practice on an annual basis.

Loans deemed uncollectible are charged against the allowance for loan losses. After a loan is charged off, the Bank continues its efforts to recover the loss. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. The Bank recorded a $400 thousand partial charge-off of a $1.6 million commercial real estate loan in 2009. The Bank recorded a $676 thousand partial charge-off of a $1.7 million commercial real estate loan in 2008. Transactions in the allowance for loan losses are summarized in following table:

	Year ended December 31,				
	2009	2008	2007	2006	2005
	(Dollar amounts in thousands)				
Balance, beginning of period	$ 1,718	$ 2,028	$ 1,993	$ 1,903	$ 1,763
Loans charged off:					
Collateralized by real estate:					
Commercial	-	688	-	39	-
Residential	38	16	12	42	-
Home equity	25	9	-	-	-
Construction and land development	400	-	-	-	-
Consumer	195	69	72	43	8
Commercial	-	32	67	17	33
Credit cards	1	21	-	21	16
Other	-	10	-	-	-
Total loans charged off	659	845	151	162	57
Recoveries of loans previously charged off:					
Collateralized by real estate:					
Commercial	-	5	-	-	-
Residential	-	14	1	14	-
Home equity	2	2	-	-	-
Construction and land development	-	-	-	55	32
Consumer	15	11	37	16	5
Commercial	1	-	-	1	1
Credit cards	-	1	1	6	-
Other	-	20	-	-	-
Total recoveries	18	53	39	92	38
Net loans charged off	(641)	(792)	(112)	(70)	(19)
Provision charged to operations	1,829	482	147	160	159
Balance, end of period	$ 2,906	$ 1,718	$ 2,028	$ 1,993	$ 1,903
Loans outstanding:					
Average	$184,965	$192,472	$187,888	$186,146	$197,064
End of period	196,977	181,549	193,941	187,022	193,937
Ratio of allowance for loan losses to total loans outstanding at end of period	1.48%	0.95%	1.05%	1.07%	0.98%
Net charge offs to average loans	0.35%	0.41%	0.06%	0.04%	0.01%

The allowance for loan losses is allocated among loan categories as shown in the following table. Although the Bank considers inherent losses in individual loans and categories of similar loans when it establishes the loan loss allowance, the allowance is a general reserve available to absorb all credit losses in the portfolio. No part of the allowance is segregated for or dedicated to any particular asset or group of assets.

Allocation of the allowance for loan losses at December 31,

	2009		2008		2007		2006		2005	
	Amount	Percent[1]	Amount	Percent[1]	Amount	Percent[1]	Amount	Percent[1]	Amount	Percent[1]
	(Dollar amounts in thousands)									
Real estate:										
Commercial	$ 810	33%	$ 501	27%	$ 779	27%	$ 654	25%	$ 720	25%
Residential	97	26%	169	30%	321	41%	88	46%	186	47%
Home equity	78	13%	121	13%	115	11%	9	10%	8	10%
Construction[2]	446	6%	26	7%	-	4%	-	3%	-	3%
Consumer	261	6%	280	8%	116	6%	89	4%	40	3%
Commercial	1,206	14%	579	14%	552	9%	1,064	10%	826	10%
Credit cards	-	0%	-	0%	48	1%	31	1%	47	1%
Other	5	2%	10	1%	-	1%	58	1%	76	1%
Unallocated	3	n/a	32	n/a	97	n/a	-	n/a	-	n/a
Total	$2,906	100%	$1,718	100%	$2,028	100%	$1,993	100%	$1,903	100%

(1) - Percent of loans in each category to total loans.
(2) - Includes land development.

Management reviews nonperforming assets on a regular basis and assesses the requirement for specific reserves on those assets. Any loan past due 90 days or more and any loan on non-accrual is considered to be a nonperforming asset. Any loan 90 days or more past due that is not both adequately collateralized and in a positive cash-flow position and any loan to a borrower experiencing serious financial deterioration may be placed on non-accrual by the Senior Credit Officer with the concurrence of senior management. Interest received on non-accrual loans – also referred to as nonperforming loans – is recorded as a reduction of principal. The table to follow summarizes nonperforming assets and other nonperforming assets by category.

	Problem assets at December 31,				
	2009	2008	2007	2006	2005
Real estate:	(Dollar amounts in thousands)				
Commercial:					
Non-accrual	$ 2,432	$ 1,306	$ 2,106	$ 454	$ -
Past due 90 days or more	-	-	-	-	-
Residential:					
Non-accrual	503	60	209	223	599
Past due 90 days or more	362	173	142	217	198
Home equity:					
Non-accrual	386	386	-	8	5
Past due 90 days or more	86	34	9	-	-
Construction and land development:					
Non-accrual	1,200	-	-	276	-
Past due 90 days or more	-	-	-	-	-
Not collateralized by real estate:					
Consumer and other:					
Non-accrual	-	-	-	-	4
Past due 90 days or more	10	24	1	8	5
Commercial:					
Non-accrual	195	-	330	1,100	1,472
Past due 90 days or more	-	30	-	22	36
Credit cards:					
Non-accrual	-	-	-	-	-
Past due 90 days or more	-	-	6	-	6
Total nonperforming loans	5,174	2,013	2,803	2,308	2,325
Other real estate owned	104	354	194	103	103
Total nonperforming assets	$ 5,278	$ 2,367	$ 2,997	$ 2,411	$ 2,428
Loans outstanding, net	$194,071	$179,831	$191,488	$184,481	$191,538
Nonperforming loans to total net loans	2.67%	1.12%	1.46%	1.25%	1.21%
Nonperforming assets to total assets	1.43%	0.70%	0.98%	0.78%	0.79%
Allowance for loan losses to total loans	1.48%	0.95%	1.05%	1.07%	0.98%
Allowance for loan losses to nonperforming loans	56.17%	85.35%	72.35%	86.38%	81.86%

Securities

Total securities increased $3.0 million or 2.4% at December 31, 2009 when compared to December 31, 2008. Securities are primarily comprised of mortgage-backed securities, municipal securities and securities issued by corporations. The Bank actively purchases bonds issued by local municipalities, school systems and other public entities when opportunities arise. Securities are classified either as held to maturity or as available for sale. The Bank does not hold any securities for trading purposes. If management has the intent and the Bank has the ability at the time of purchase to hold a security until maturity, the security is classified as held to maturity and it is reflected on the balance sheet at amortized cost. Securities to be held for indefinite periods and not intended to be held to maturity or on a long-term basis are classified as available for sale, and they are reflected on the balance sheet at their fair value. Management generally believes that all securities should be classified as available for sale but makes that determination at the time of purchase. In order to more effectively manage securities and to be in a better position to react to market conditions, at December 31, 2009, all securities were classified as available for sale. At year-end 2009 and 2008 there was no single issuer of securities where the total book value of such securities exceeded 10% of shareholders' equity except for U.S. government and agency obligations.

The following table shows the amortized cost and estimated fair values of the corporation's securities portfolio at the date indicated.

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
		(Dollar amounts in thousands)		
December 31, 2009				
Available for sale:				
U.S. Government and federal agency	$ 819	$ -	$ -	$ 819
State and municipal	28,019	763	(99)	28,683
Corporate bonds and notes	7,640	137	-	7,777
Mortgage-backed: residential	89,972	3,058	(87)	92,943
Equity securities	23	-	(4)	19
Total securities	$ 126,473	$ 3,958	$ (190)	$ 130,241
December 31, 2008				
Available for sale:				
State and municipal	$ 16,173	$ 234	$ (193)	$ 16,214
Corporate bonds and notes	7,630	5	(453)	7,182
Mortgage-backed: residential	101,220	2,616	-	103,836
Equity securities	23	-	(7)	16
Total securities	$ 125,046	$ 2,855	$ (653)	$ 127,248
December 31, 2007				
Available for sale:				
U.S. Government and federal agency	$ 10,107	$ 161	$ -	$ 10,268
State and municipal	15,786	295	(13)	16,068
Corporate bonds and notes	17,864	26	(295)	17,595
Mortgage-backed: residential	40,310	294	(21)	40,583
Total securities	$ 84,067	$ 776	$ (329)	$ 84,514

The contractual maturity of securities available for sale at December 31, 2009 is shown below.

	One year or less	More than one to five years	More than five to ten years	More than ten years	Total securities	
	Carrying value Average yield	Carrying value Average yield	Carrying value Average yield	Carrying value Average yield	Carrying value Average yield	Market value
	(Dollar amounts in thousands)					
U.S. Government and federal agency	$ -	$ -	$ 819	$ -	$ 819	$ 819
	-	-	4.40%	-	4.40%	
State and municipal	784	1,873	13,727	12,299	28,683	28,683
	4.09%	4.27%	3.93%	3.98%	3.97%	
Corporate bonds and notes	5,242	2,535	-	-	7,777	7,777
	4.94%	5.05%	-	-	4.98%	
Mortgage-backed: residential	-	5,201	36,474	51,268	92,943	92,943
	-	1.62%	4.68%	4.56%	4.44%	
Total	$ 6,026	$ 9,609	$ 51,020	$ 63,567	$130,222	$130,222
	4.83%	3.04%	4.47%	4.45%	4.37%	

Restricted Equity Securities

As of December 31, 2009, the Bank held 24,855 shares of $100 par value Federal Home Loan Bank of Cincinnati stock, which are restricted-equity securities. FHLB stock represents an equity interest in the FHLB, but it does not have a readily determinable fair value. The stock can be sold at its par value only, and only to the FHLB or to another member institution. Member institutions are required to maintain a minimum stock investment in the FHLB, based on total assets, total mortgages, and total mortgage-backed securities.

Total Liabilities

Total liabilities increased by $30.2 million or 10.0% from 2008 to 2009. This increase is primarily a result of a $19.6 million increase in interest-bearing deposits and an increase of $6.0 million in Federal Home Loan Bank advances.

Deposits

Deposits increased during 2009 by $27.7 million or 10.5%. The increase is primarily attributed to a growth in interest-bearing demand deposits of $25.3 million. This increase was partially offset by decreases in savings and time deposits. Savings accounts decreased by $3.3 million or 6.6% from the end of 2008 to the end of 2009. This was primarily due to customers moving to higher yielding demand accounts. Time deposits decreased by $2.5 million or 3.3%. This decrease is a result of the success of our premium money market and interest-bearing checking accounts, and management's decision to maintain a reasonable time deposit rate structure. Interest-bearing demand deposits, which include negotiable order of withdrawal accounts and money market demand accounts, increased $25.3 million or 27.4% during 2009. Much of the increase in this category is attributed to the Bank's success in marketing our "Platinum Checking" account. First National Bank has not solicited brokered deposits.

Maturity of time deposits of $100,000 or more at December 31, 2009
(Dollar amounts in thousands)

	Amount	Percent of Total
Time remaining to maturity		
Three months or less	$ 6,244	39.7%
Over three through 12 months	5,400	34.4%
Over one year through 3 years	3,386	21.6%
Over 3 years	682	4.3%
	$ 15,712	100.0%

Liquidity and Capital Resources

A Bank's liquidity risk is the risk associated with having to satisfy current and future financial obligations in a timely manner. Both short- and long-term liquidity needs are addressed by maturities and sales of unpledged securities, loan repayments and maturities, sales of loans that are not pledged as security for FHLB borrowings, and transactions in cash and cash equivalents, such as federal funds purchased. The use of these resources, combined with access to credit, provide funds for satisfying depositor and borrower needs. Management considers the Bank to have satisfactory liquidity, with the ability to satisfy the demands of customers and the local economy. Liquidity may be adversely affected by unexpected deposit outflows, which can be caused by higher interest rates paid by competitors. Management continually monitors projected liquidity needs and establishes a desirable level based in part on the Bank's commitment to make loans as well as management's assessment of the Bank's ability to generate funds.

The most liquid assets are cash and cash equivalents, which at year-end 2009 consisted of $8.1 million in cash and due from banks. At year-end 2008 cash and cash equivalents consisted of $11.0 million in cash and due from banks. Federal funds sold are overnight investments with correspondent banks, an investment and liquidity tool used to maximize earning assets. Securities classified as available for sale that are not pledged are another source of liquidity. We consider the Bank's loans-to-deposits ratio to assess liquidity, seeking to cap the ratio of loans to deposits at 90%. The ratio of total loans to deposits at year-end 2009 was 67.6%. At the end of 2009 the fair value of securities available for sale was approximately $130.2 million, while the total carrying value of securities pledged was approximately $45.9 million, representing securities pledged to secure public deposits and repurchase agreements.

The Corporation's operating activities, as described in the Consolidated Statements of Cash Flows in the attached consolidated financial statements, include net cash provided of $1.4 million in 2009, $2.3 million in 2008 and $1.8 million in 2007, generated principally from net income in those years. The Bank reported $16.8 million in originations and proceeds from sales of mortgage loans held for sale as operating activities in 2009.

The Corporation's investing activities, as described in the Consolidated Statements of Cash Flows in the attached consolidated financial statements, consist primarily of loan originations and repayments, along with securities purchases, sales and maturities. In 2009, net cash used in investing activities was $33.6 million. The increase in loans over the year and the purchase of loans utilized $16.3 million of cash. Net cash used to purchase time deposits with other financial institutions was $13.6 million in 2009. Purchases of property and equipment, primarily related to our office rebranding project, were $3.4 million. In 2008, net cash used in investing activities was $31.1 million. The increase in loans over the year and the purchase of loans utilized $11.3 million of cash. Net cash used from activity in securities available for sale totaled $20.3 million in 2008. Management continued the reallocation of the investment portfolio started in 2007 by primarily purchasing seasoned 15 and 20 year discount agency mortgage-backed securities in 2008.

The Corporation's financing activities, as described in the Consolidated Statements of Cash Flows in the attached consolidated financial statements, include the solicitation and repayment of customer deposits, borrowings and repayments, treasury stock activity, and the payment of dividends. In 2009, net cash provided by financing activities was $29.3 million. The increase in deposits and short-term borrowings over the year provided $24.2 million of cash. At December 31, 2009, the Bank had $27.0 million of borrowings outstanding with FHLB, maturing in the years 2010, 2011, 2012 and 2014. This amount represents a $6.0 million increase from the $21.0 million that was owed at the end of 2008.

First National Bank has approximately $13.6 million available in short-term funding arrangements with its correspondent banks and the FHLB as of December 31, 2009. Additional information concerning FHLB borrowings and bank obligations under repurchase agreements is contained in Notes 8 and 9 of the consolidated financial statements of National Bancshares Corporation. The outstanding balances and related information about short-term borrowings, which consists almost entirely of securities sold under agreements to repurchase are summarized as follows:

	Year ended December 31,		
	2009	2008	2007
	(Dollar amounts in thousands)		
Balance at year-end	$ 6,105	$ 10,469	$ 8,831
Average balance outstanding	7,442	10,134	8,642
Maximum month-end balance	8,965	11,136	10,956
Weighted-average rate at year-end	0.25%	0.50%	2.85%
Weighted-average rate during the year	0.26%	1.42%	3.86%

The Bank is subject to federal regulations imposing minimum capital requirements. Total risk-based capital, tier I risk-based capital, and tier I leverage capital ratios are monitored to assure compliance with regulatory capital requirements. At December 31, 2009, the Bank exceeded minimum risk-based and leverage capital ratio requirements. The Bank's ratio of total capital to risk-based assets was 12.46% on December 31, 2009. The minimum required ratio to be considered adequately capitalized is 8%. Additional information concerning capital ratios at year-end 2009 and 2008 is contained in Note 14 of the consolidated financial statements.

Contractual Obligations

As discussed in the notes to National Bancshares Corporation's consolidated financial statements, obligations exist to make payments under contracts, including borrowings. At December 31, 2009, the aggregate contractual obligations are outlined below:

	Payment due by period (Dollar amounts in thousands)				
Contractual obligations	Total	One year or less	More than one to three years	More than three to five years	More than five years
Time deposits	$ 72,850	$ 48,537	$ 18,141	$ 6,172	$ -
Long-term obligations	27,000	12,000	10,000	5,000	-
Information system contract obligations	5,230	1,086	2,162	1,776	206
Operating lease obligations	25	16	9	-	-
	$105,105	$ 61,639	$ 30,312	$ 12,948	$ 206

Off-Balance Sheet and Contingent Liabilities

Financial instruments, such as loan commitments, credit lines, and letters of credit are issued to satisfy customers' financing needs. Ordinarily having fixed expiration dates, these commitments are agreements to provide credit or to support the credit of others, as long as conditions established in the contracts are satisfied. Off-balance-sheet risk in the form of potential credit loss exists up to the face amount of these instruments, although we do not expect losses. Since these commitments are viewed as loans, the same credit policies used for loans are used to evaluate making the commitments. These funding commitments by expiration period were as follows at year-end 2009:

	Expiration of funding commitments		
	One year or less	More than one year	Total
	(Dollar amounts in thousands)		
Unused loan commitments	$ 36,195	$ 24,372	$ 60,567
Commitment to make loans	2,531	-	2,531
Letters of credit	308	-	308
	$ 39,034	$ 24,372	$ 63,406

Of the unused loan commitments, $9,974 are fixed-rate commitments and $50,593 are variable-rate commitments. Rates on unused fixed-rate loan commitments range from 6.25% to 21.9%. The funding commitments shown in the table above do not necessarily represent future cash requirements since experience demonstrates that a large percentage of funding commitments expire unused or partially used.

The Bank is required by regulations of the Federal Reserve Board to maintain cash reserves on hand or on deposit with the Federal Reserve Bank. Reserve requirements vary according to the amount of a Bank's transaction accounts, checking accounts principally. First National Bank was required to maintain cash reserve balances with the Federal Reserve Bank of $100 thousand at year-end 2009 and $100 thousand at year-end 2008.

The Bank sells some of the loans it originates, particularly conventional fixed-rate residential mortgage loans. The loans are sold without recourse. The Bank has retained mortgage-servicing rights on approximately $29.3 million of residential mortgage loans sold.

Shareholders' Equity

The $2.0 million or 5.4% increase in shareholders' equity from year-end 2008 to year-end 2009 was caused by an increase in retained earnings of $884 thousand and an increase in accumulated other comprehensive income, which results from improvement in the fair value of securities available for sale and earnings greater than the dividend payout. Accumulated other comprehensive income represents the unrealized appreciation or depreciation (net of taxes) in the fair value of securities available for sale. Interest rate volatility, economic and interest rate conditions could cause material fluctuations in accumulated other comprehensive income. The dividend payout ratio for 2009 was 43.82% versus 64.00% in 2008.

National Bancshares Corporation is dependent on the Bank for earnings and funds necessary to pay dividends, and the payment of dividends, by the Bank to National Bancshares Corporation, is subject to bank regulatory restrictions. According to the National Bank Act and Office of the Comptroller of the Currency (OCC) Rule 5.64, a national bank may never pay a cash dividend without advance OCC approval if the amount of the dividend exceeds retained net income for the year and for the two preceding years (after any required transfers to surplus). The Bank could, without prior approval, pay dividends to the holding company of approximately $437 as of December 31, 2009.

Interest Rate Sensitivity

Asset-liability management is the active management of a bank's balance sheet to maintain a mix of loans and deposits consistent with its goals for long-term growth and risk management. Banks, in the normal course of business, assume financial risk by making loans at interest rates that differ from rates paid on deposits. Deposits often have shorter maturities than loans and adjust to current market rates faster than loans. The result is a balance sheet mismatch between assets (loans) and liabilities (deposits).

The function of asset-liability management is to measure and control three levels of financial risk: interest rate risk (the pricing difference between loans and deposits), credit risk (the probability of default), and liquidity risk (occurring when loans and deposits have different maturities).

A primary objective in asset-liability management is managing net interest margin, that is, the net difference between interest earning assets (loans) and interest paying liabilities (deposits) to produce consistent growth in the loan portfolio and shareholder earnings, regardless of short-term movement in interest rates. The dollar difference between assets (loans) maturing or repricing and liabilities (deposits) is known as the rate sensitivity gap (or maturity gap). Banks attempt to manage this asset-liability gap by pricing some of their loans at variable interest rates.

A more precise measure of interest rate risk is duration, which measures the impact of changes in interest rates on the expected maturities of both assets and liabilities. In essence, duration takes the gap report data and converts that information into present-value worth of deposits and loans, which is more meaningful in estimating maturities and the probability that either assets or liabilities will reprice during the period under review.

Interest rate risk is the result of such risks as repricing risk, option risk and basis risk. Repricing risk is caused by the differences in the maturity, or repricing, of assets and liabilities. Most residential mortgage and consumer loans give consumers the right to prepay with little or no prepayment penalty, and because of competitive pressures, it may not be advisable to enforce prepayment penalties on commercial loans. First National Bank's fixed-rate conventional mortgage loans are originated with loan documentation that permits such loans to be sold in the secondary market. The Bank's policy is to classify these loans as "Held for Sale" or "Held in Portfolio" at the time the loans are originated based on such factors as the Bank's liquidity position, interest rate environment and general economic conditions.

Option risk is the risk that a change in prevailing interest rates will lead to an adverse impact on earnings or capital caused by changes in the timing of cash flows from investments, loans and deposits. Cash flows may be received earlier than expected as a result of the exercise of the option to prepay or withdraw early embedded in the financial contracts. The option a borrower has to prepay a loan is similar to the option a depositor has to make an early withdrawal from a deposit account. This form of embedded option, which gives the customer the opportunity to benefit when interest rates change in their favor, ordinarily occurs at the Bank's expense in the form of higher interest expense or lower interest income. Residential mortgage loans tend to have higher option risk because of the borrower's option to prepay the loan, primarily through refinancing when rates decline, and higher interest rate risk because of the longer term associated with residential mortgage loans. Option risk in the form of prepayments also affects the value of mortgage-backed securities.

Basis risk is the risk that changes in interest rates will cause interest-bearing deposit liabilities to reprice at a different rate than interest-bearing assets, creating an asset-liability mismatch. If for example, a bank lends at a rate which changes as the prime rate changes and finances the loan with deposits not tied to the prime rate as an index; it faces basis risk due to the possibility that the prime rate-deposit rate spread might change.

Economic Value of Equity

The economic value of equity (EVE) is the difference between the net present value of the assets and the net present value of liabilities. EVE can be thought of as the liquidation value of the Bank on the date the calculation is made. Calculating EVE involves using a discount rate to calculate the net present value of assets and liabilities after making assumptions about the duration of assets and liabilities. As interest rates change, the discount rate changes and the change in interest rates effects the duration of assets and liabilities. If interest rates fall, for example, the duration of loans shortens since borrowers tend to prepay by refinancing their loans. Conversely, the duration of loans increases if interest rates rise since borrowers are inclined to hold on to the favorable rate they were able to obtain in the lower interest rate environment.

The Board of Directors has established limits on the fluctuation of EVE and EAR given changes in interest rates. These limits are that EVE shall not decline by more than 10%, 20% and 30% given a 100 basis point, 200 basis point and 300 basis point increase or decrease in interest rates respectively and that EAR shall not be greater than 8%, 16% or 24% given a 100 basis point, 200 basis point or 300 basis point increase or decrease in interest rates respectively. The following illustrates our equity at risk in the economic value of equity model:

December 31, 2009

Basis Point Change in Rates	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp
Increase (decrease) in EVE	(13.4)%	(7.4)%	(2.3)%	(4.4)%	(10.9)%	(19.9)%

The Bank is in compliance with the interest rate risk policy limits related to EVE as of December 31, 2009.

Earnings at Risk

Earnings at risk (EAR), is the amount by which net interest income will be affected given a change in interest rates. The interest income and interest expense for each category of earning assets and interest bearing liabilities is recalculated after making up and down assumptions about the change in interest rates. Changes in prepayment speeds and repricing speeds are also taken into account when computing earnings at risk, given a change in interest rates.

The following illustrates the effect on earnings or EAR, given rate increases of 100 to 300 basis points and decreases in interest rates of 100 to 300 basis points.

December 31, 2009

Basis Point Change in Rates	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp
Increase (decrease) in Earnings	(1.6)%	(1.1)%	(0.3)%	(0.1)%	(1.9)%	(4.0)%

The Bank is in compliance with the interest rate risk policy limits related to EAR as of December 31, 2009.

One way to minimize interest rate risk is to maintain a balanced or matched interest-rate sensitivity position. However, matched funding does not generally maximize profits. To increase net interest income, the Bank mismatches asset and liability repricing to take advantage of interest rate conditions. The magnitude of the mismatch depends on management's assessment of the risks presented by the interest rate environment.

Interest rate risk can significantly affect income and expense on interest sensitive assets and liabilities, and can also affect the underlying value of the Bank's assets. The goal in managing interest rate sensitivity is to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize the impact of volatility in market interest rates.

Management of maturity distributions of assets and liabilities between the most and least sensitive extremes is as important as the balances on hand. Management of maturity distributions involves matching interest rate maturities as well as principal maturities, which can influence net interest income significantly. In periods of rapidly changing interest rates, a negative or positive gap can cause major fluctuations in net interest income and earnings. Managing asset and liability sensitivities, and insulating net interest income from changes in market and interest rate conditions is one of the objectives of the Bank's asset/liability management strategy.

Management attempts to maintain consistent net interest income and net income while managing interest rate risk within Board approved policy limits. Evaluating the Bank's exposure to changes in interest rates is the responsibility of Bank management which reports directly to the Board of Directors. Bank management assesses both the adequacy of the management process used to control interest rate risk and the quantitative level of exposure, monitoring and managing interest rate risk to control the effect of changing interest rates on net interest income and net income. Evaluating the quantitative level of interest rate risk exposure requires assessment of existing and potential effects of changes in interest rates on the Bank's financial condition, including capital adequacy, earnings, liquidity and asset quality. Bank management also monitors the Bank's liquidity levels. Interest rate risk exposure is reviewed quarterly with the Board of Directors. Risk is mitigated by matching maturities or repricing opportunities.

Results of Operations

First National Bank derives substantially all of its income from banking and bank-related services, including interest earnings on residential real estate, commercial real estate, commercial and consumer loans and investment securities along with fee income from deposit services. National Bancshares Corporation's business consists almost exclusively of acting as holding company for the Bank. First National Bank's business is not complex: the Bank gathers deposits and it makes loans, principally in Wayne, Stark, Summit, Medina and Holmes counties, Ohio.

Average Balances, Interest Rates and Yields

The average balances of our interest-earning assets and interest-bearing liabilities, interest earned on assets and interest cost of liabilities for the periods indicated, and the average yields earned and rates paid are presented in the following table. Yields are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are daily averages.

	Year ended December 31,								
	2009			2008			2007		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets	(Dollars amounts in thousands)								
Interest earning assets:									
Securities:									
Taxable	$ 113,608	5,397	4.88%	$ 79,522	4,095	5.14%	$ 68,787	3,585	5.18%
Nontaxable (1)	20,557	1,226	6.09%	16,491	991	6.07%	16,757	1,059	6.39%
Federal funds sold	6,063	12	0.20%	3,353	63	1.88%	6,447	335	5.20%
Interest bearing deposits	1,906	25	1.31%	1,019	18	1.77%	1,319	69	5.23%
Net loans (including nonaccrual loans)	183,001	10,222	5.59%	192,472	12,241	6.36%	187,888	13,144	7.00%
Total interest-earning assets	325,135	16,882	5.19%	292,857	17,408	5.94%	281,198	18,192	6.34%
All other assets	27,502			22,059			23,645		
Total assets	$ 352,637			$ 314,916			$ 304,843		
Liabilities and Shareholder's Equity									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing checking	$ 109,400	1,026	0.94%	$ 73,243	1,342	1.83%	$ 58,148	1,341	2.31%
Savings	48,198	123	0.26%	51,963	291	0.56%	56,690	615	1.08%
Time, $100,000 and over	13,901	340	2.45%	13,197	497	3.77%	14,087	641	4.55%
Time, other	58,822	1,627	2.77%	65,248	2,527	3.87%	72,584	3,231	4.45%
Other funds purchased	34,166	1,121	3.28%	31,138	1,128	3.62%	23,838	1,140	4.78%
Total interest-bearing liabilities	264,487	4,237	1.60%	234,789	5,785	2.46%	225,347	6,968	3.09%
Demand deposits	46,265			42,004			42,225		
Other liabilities	3,662			2,741			2,666		
Shareholders' equity	38,223			35,382			34,605		
Total liabilities and shareholders' equity	$ 352,637			$ 314,916			$ 304,843		
Net interest income (1)		$12,645			$11,623			$11,224	
Interest rate spread (2)			3.59%			3.48%			3.25%
Net yield on interest-earning assets (3)			3.89%			3.97%			3.99%
Ratio of average interest-earning assets to average interest-bearing liabilities			122.93%			124.73%			124.78%

(1) Tax-equivalent basis

(2) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(3) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

Changes in interest income and interest expense attributable to (1) changes in volume (changes in average volume multiplied by prior year rate), and (2) changes in rates (changes in rate multiplied by prior year average volume) are shown in the table to follow. Increases and decreases have been allocated proportionally to the change due to volume and the change due to rate.

	2009 over 2008			2008 over 2007		
(Dollar amounts in thousands)	Volume	Rate	Net change	Volume	Rate	Net change
Interest income						
Securities:						
Taxable	$ 1,516	$ (214)	$ 1,302	$ 557	$ (47)	$ 510
Nontaxable (tax-equivalent basis)	221	14	235	(27)	(41)	(68)
Federal funds sold	5	(56)	(51)	(58)	(214)	(272)
Interest bearing deposits	12	(5)	7	(5)	(46)	(51)
Loans (including nonaccrual loans)	(529)	(1,490)	(2,019)	292	(1,195)	(903)
Total interest income (tax-equivalent basis)	$ 1,225	$(1,751)	$ (526)	$ 759	$(1,543)	$ (784)
Interest expense						
Deposits						
Interest bearing checking	$ 339	$ (655)	$ (316)	$ 277	$ (276)	$ 1
Savings	(10)	(158)	(168)	(26)	(298)	(324)
Time, $100,000 and over	17	(174)	(157)	(34)	(110)	(144)
Time, other	(178)	(722)	(900)	(284)	(420)	(704)
Other funds purchased	99	(106)	(7)	264	(276)	(12)
Total interest expense	$ 267	$(1,815)	$(1,548)	$ 197	$(1,380)	$(1,183)
Change in net interest income (tax-equivalent basis)*	$ 958	$ 64	$ 1,022	$ 562	$ (163)	$ 399

*Tax equivalence based on highest statutory tax rates of 34%.

2009 versus 2008

During 2009, net income decreased $585 thousand or 26.7% to $1.6 million. Accordingly, basic and diluted earnings per share decreased from $1.00 per share in 2008 to $0.73 per share in 2009. Earnings for 2009 were negatively impacted by a $1.3 million increase in the provision for loan loss and a $570 increase in FDIC insurance expense, partially offset by an increase in net interest income of $942 thousand. Returns on average equity (ROE) and average assets (ROAA) for the year ending December 31, 2009, were 4.21% and 0.46%, respectively, compared to 6.20% and 0.70% for the year ending December 31, 2008.

Total interest and dividend income decreased $606 thousand or 3.5% in 2009. Interest and fees on loans decreased $2.0 million or 16.5%, due to the decrease in interest rates during the year, and the mortgage loan securitization transaction with the Federal Home Loan Mortgage Corporation in December 2008 which decreased loans by $20.9 million. Securities interest and dividend income increased $1.5 million or 30.7% over 2008. Much of this increase is attributable to an increase in the average balance of securities related to the aforementioned mortgage loan securitization.

Interest expense decreased by $1.5 million or 26.8% during 2009, as the Bank's deposits and short-term borrowings were affected by the falling interest rate environment. Interest expense on deposits decreased $1.5 million or 33.1% in 2009. Deposit customers continued moving funds from lower-rate deposit accounts to higher-yielding accounts, such as premium money market accounts and high interest checking accounts during 2009. Interest expense for short-term borrowings decreased by $119 thousand or 72.6%, primarily due to the significant decrease in short-term market interest rates during 2009. Federal Home Loan Bank advances interest expense increased $112 thousand or 11.6% as the amount of advances increased from $21 million to $27 million during 2009.

The provision for loan losses was $1.8 million in 2009, compared to $482 thousand in 2008. The allowance for loan losses and the related provision for loan losses is based on management's judgment and evaluation of the loan portfolio. Net charge-offs were $641 thousand for 2009, compared to $792 thousand for 2008. The allowance as a percentage of loans increased from 0.95% at December 31, 2008 to 1.48% at December 31, 2009. Classified loans have increased from $7.2 million as of December 31, 2008 to $14.6 million as of December 31, 2009 as some of our borrowers have struggled with the challenging business environment created by the current economic recession. Total nonperforming loans have increased from $2.0 million as of December 31, 2008 to $5.2 million as of December 31, 2009. Management believes the current allowance for loan losses is adequate, however changing economic and other conditions may require future adjustments to the allowance for loan losses.

Noninterest income increased $639 thousand or 27.4% during 2009. The increase is primarily related to net gains recorded on the sale of securities of $770 thousand. Income from mortgage banking activities increased from $126 thousand in 2008 to $310 thousand in 2009 as the Corporation originated $16.8 million in mortgage loans for sale on the secondary market. The 2009 originations represent an amount significantly higher than the $7.1 million originated in 2008.

Noninterest expense was $11.4 million for the year ended December 31, 2009 compared to $10.2 million for 2008, an increase of 11.7%. The increase in noninterest expense was due primarily to an increase in the FDIC deposit insurance premium from $35 thousand in 2008 to $605 thousand in 2009. Salaries and employee benefits, occupancy and professional and consulting fees were slightly higher in 2009 compared to 2008 levels.

Income tax expense was $398 thousand for the year ended December 31, 2009, representing a decrease of $372 thousand or 48.3% compared to 2008. The change is primarily related to a decrease in income before income taxes and an increase in interest income from nontaxable securities.

2008 versus 2007

During 2008, net income increased $483 thousand or 28.2% to $2.2 million. Accordingly, basic and diluted earnings per share increased from $0.77 per share in 2007 to $1.00 per share in 2008. The increase in net income is the result of a relatively stable net interest margin, an increase in noninterest income and a decrease in noninterest expenses. Returns on average equity (ROE) and average assets (ROAA) for the year ending December 31, 2008, were 6.20% and 0.70%, respectively, compared to 4.94% and 0.56% for the year ending December 31, 2007.

Total interest and dividend income decreased $761 thousand or 4.3% in 2008. Interest and fees on loans decreased $903 thousand or 6.9%, due primarily to the decrease in interest rates during the year, partially offset by the $4.6 million increase in average loans. Management has focused on aggressively attracting commercial loan business and purchasing loan participations from other Ohio banks (commercial real estate and consumer loans). Securities interest and dividend income increased $465 thousand or 10.9% over 2007. Much of this increase is attributable to an increase in the average balance of securities.

Interest expense decreased by $1.2 million or 17.0% during 2008, as the Bank's deposits and short-term borrowings were affected by the falling interest rate environment. Interest expense on deposits decreased $1.2 million or 20.1% in 2008. Deposit customers continued moving funds from lower-rate deposit accounts to higher-yielding accounts, such as premium money market accounts and high interest checking accounts during 2008. Interest expense for short-term borrowings decreased by $196 thousand or 54.4%, primarily due to the significant decrease in short-term market interest rates during 2008. Federal Home Loan Bank advances interest expense increased $184 thousand or 23.6% as the amount of advances increased from $17 million to $21 million during 2008.

The provision for loan losses was $482 thousand in 2008, compared to $147 thousand in 2007. The allowance for loan losses and the related provision for loan losses is based on management's judgment and evaluation of the loan portfolio. Net charge-offs were $792 thousand for 2008, compared to $112 thousand for 2007. The increase in 2008 charge-offs were primarily related to a $676 thousand partial charge-off of a $1.7 million Summit County commercial real estate loan. The allowance as a percentage of loans declined from 1.05% at December 31, 2007 to 0.95% at December 31, 2008. Classified loans have increased from $5.3 million as of December 31, 2007 to $7.2 million as of December 31, 2008. Total nonperforming loans have decreased from $2.8 million as of December 31, 2007 to $2.0 million as of December 31, 2008, a decrease of 28.2%. Management believes the current allowance for loan losses is adequate, however changing economic and other conditions may require future adjustments to the allowance for loan losses.

Noninterest income increased $343 thousand or 17.2% during 2008. The increase is related to the Bank's enhancement of the deposit and service charge fee structure, improvements in mortgage banking operations and marketing activities and an increase in customer utilization of Visa check card transactions. The Bank sold its $1.5 million credit card portfolio in July 2008. The transaction generated a $435 thousand gain on sale. During 2008, the Corporation recorded an other than temporary impairment of $444 thousand for the FHLMC preferred stock owned by the holding company.

Noninterest expense was $10.2 million for the year ended December 31, 2008 compared to $10.5 million for 2007, a decrease of 3.1%. The decrease is primarily due to lower data processing expenses, professional and consulting fees and maintenance and repairs expense. Data processing expense decreased $158 thousand during 2008 as a result of a new contract entered into in January of 2008 with the provider of the Bank's core processing solution. The decrease in professional and consulting fees was the result of a higher level of services utilized in 2007. The Corporation engaged a consulting firm to review the key business processes and procedures of First National Bank in 2007.

Income tax expense was $770 thousand for the year ended December 31, 2008, representing an increase of $274 thousand or 55.2% compared to 2007.

Critical Accounting Policies

National Bancshares Corporation's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America – GAAP – and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments based on information available as of the date of the consolidated financial statements, affecting the amounts reported in the financial statements and accompanying notes. Certain policies necessarily require greater reliance on the use of estimates, assumptions, and judgments. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management, including the use of internal cash-flow modeling techniques. National Bancshares Corporation's most significant accounting policies are presented in Note 1 of the consolidated financial statements. Management considers the allowance for loan losses, valuation of securities and goodwill and other intangible assets to be the most subjective and the most susceptible to change as circumstances and economic conditions change.

Allowance for Loan Losses

An allowance for loan losses recorded under generally accepted accounting principles is a valuation allowance for probable incurred credit losses, based on current information and events, increased by the provision for loan losses and decreased by charge-offs less recoveries. The amount of the allowance is a product of management's judgment and it is inevitably imprecise. Estimating the allowance requires significant judgment and the use of estimates related to many factors, including the amount and timing of future cash flows on problem loans, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends and conditions, all of which are susceptible to significant change. Although management believes that the allowance for loan losses was adequate at December 31, 2009, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan loss provisions, and reductions in income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review a bank's loan loss allowance. The Office of the Comptroller of the Currency (OCC) could require the recognition of additions to the loan loss allowance based on the OCC's judgment of information available to it at the time of its examination of First National Bank.

Valuation of Securities

The portfolio of available for sale securities is reported at fair value. The fair value of a security is determined based on quoted market prices. If quoted market prices are not available, fair value is determined based on quoted prices of similar instruments. Available for sale and held to maturity securities are reviewed quarterly for possible other than temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment, such as the length of time the fair value has been below cost, the expectation for that security's performance, the credit worthiness of the issuer, and the bank's ability to hold the security to maturity. A decline in value that is considered to be other than temporary and related to a deterioration of the credit worthiness of the issuer would be recorded as a loss within noninterest income in the consolidated statements of income.

Goodwill and Other Intangible Assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on a straight line or accelerated method over their estimated useful lives, which is 7 to 10 years.

The Corporation performed a goodwill impairment analysis as of September 30, 2009. The fair value of the single reporting unit was determined to be greater than the carrying value. The fair value was determined by using estimated sales price multiples based on recent observable market transactions.

New Accounting Pronouncements

See Note 1 of the consolidated financial statements for details on new accounting pronouncements.

CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	2009	2008
ASSETS		
Cash and due from banks	$ 8,124	$ 11,001
Federal funds sold	-	-
Total cash and cash equivalents	8,124	11,001
Time deposits with other financial institutions	13,580	-
Securities available for sale	130,241	127,248
Restricted equity securities	3,218	3,217
Loans held for sale	316	-
Loans, net of allowance for loan losses:		
2009 – $2,906		
2008 – $1,718	194,071	179,831
Premises and equipment, net	9,033	6,197
Goodwill	4,723	4,723
Identified intangible assets	197	422
Accrued interest receivable	1,334	1,230
Bank owned life insurance	2,771	2,677
Other assets	2,620	1,456
	$ 370,228	$ 338,002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	$ 54,290	$ 46,159
Interest bearing	237,083	217,483
Total deposits	291,373	263,642
Repurchase agreements	6,105	10,469
Federal funds purchased	3,300	1,830
Federal Reserve note account	315	986
Federal Home Loan Bank advances	27,000	21,000
Accrued interest payable	408	690
Accrued expenses and other liabilities	2,824	2,504
Total liabilities	331,325	301,121
Commitments and contingent liabilities		
Shareholders' equity		
Common stock, no par value; 6,000,000 shares authorized;		
2,289,528 shares issued	11,447	11,447
Additional paid-in capital	4,752	4,718
Retained earnings	21,856	20,972
Treasury stock, at cost (83,555 and 87,160 shares)	(1,639)	(1,709)
Accumulated other comprehensive income	2,487	1,453
Total shareholders' equity	38,903	36,881
	$ 370,228	$ 338,002

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2009, 2008 and 2007
(Dollar amounts in thousands, except per share data)

	2009	2008	2007
Interest and dividend income			
Loans, including fees	$ 10,222	$ 12,241	$ 13,144
Securities:			
Taxable	5,397	4,095	3,585
Nontaxable	809	654	699
Federal funds sold and other	37	81	404
Total interest and dividend income	16,465	17,071	17,832
Interest expense			
Deposits	3,116	4,657	5,828
Short-term borrowings	45	164	360
Federal Home Loan Bank advances	1,076	964	780
Total interest expense	4,237	5,785	6,968
Net interest income	12,228	11,286	10,864
Provision for loan losses	1,829	482	147
Net interest income after provision for loan losses	10,399	10,804	10,717
Noninterest income			
Checking account fees	1,070	1,218	1,191
Visa check card interchange fees	353	326	269
Deposit and miscellaneous service fees	135	171	176
Mortgage banking activities	310	126	19
Gain on sale of credit card portfolio	-	435	-
Loss on sales of other real estate owned	(112)	(15)	(33)
Securities gains (losses), net	770	(344)	14
Other	446	416	354
Total noninterest income	2,972	2,333	1,990
Noninterest expense			
Salaries and employee benefits	5,279	5,118	5,182
Data processing	909	947	1,105
Net occupancy	1,056	915	859
FDIC assessment	605	35	29
Professional and consulting fees	546	412	593
Franchise tax	327	326	336
Maintenance and repairs	187	212	327
Amortization of intangibles	225	232	237
Telephone	216	194	243
Marketing	233	144	127
Director fees and pension	224	312	212
Other	1,557	1,326	1,250
Total noninterest expense	11,364	10,173	10,500
Income before income taxes	2,007	2,964	2,207
Income tax expense	398	770	496
Net income	$ 1,609	$ 2,194	$ 1,711
Weighted average common shares outstanding	2,202,457	2,203,218	2,231,369
Basic and diluted earnings per common share	$ 0.73	$ 1.00	$ 0.77

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2009, 2008 and 2007
(Dollar amounts in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2007	$ 11,447	$ 4,690	$ 19,901	$ (1,189)	$ (169)	$ 34,680
Comprehensive income:						
Net income			1,711			1,711
Other comprehensive income (loss)					464	464
Total comprehensive income						2,175
Cash dividends declared ($.64 per share)			(1,430)			(1,430)
Purchase of 27,103 common stock				(434)		(434)
Balance at December 31, 2007	11,447	4,690	20,182	(1,623)	295	34,991
Comprehensive income:						
Net income			2,194			2,194
Other comprehensive income (loss)					1,158	1,158
Total comprehensive income						3,352
Cash dividends declared ($.64 per share)			(1,404)			(1,404)
Purchase of 5,017 common stock				(86)		(86)
Compensation expense under stock-based compensation plans		28				28
Balance at December 31, 2008	11,447	4,718	20,972	(1,709)	1,453	36,881
Comprehensive income						
Net income			1,609			1,609
Other comprehensive income (loss)					1,034	1,034
Total comprehensive income						2,643
Cash dividends declared ($.32 per share)			(705)			(705)
Stock awards issued from Treasury Shares (3,605 shares)			(20)	70		50
Compensation expense under stock-based compensation plans		34				34
Balance at December 31, 2009	$ 11,447	$ 4,752	$ 21,856	$ (1,639)	$ 2,487	$ 38,903

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2009, 2008 and 2007
(Dollar amounts in thousands, except per share data)

	2009	2008	2007
Cash flows from operating activities			
Net income	$ 1,609	$ 2,194	$ 1,711
Adjustments to reconcile net income to net cash from operating activities			
Provision for loan losses	1,829	482	147
Deferred income taxes	(382)	40	(19)
Depreciation, amortization and accretion	877	271	442
Earnings on Bank owned life insurance	(94)	(90)	(88)
Restricted equity securities dividends	(1)	(96)	-
Origination of mortgage loans held for sale	(16,751)	(7,080)	(1,826)
Proceeds from sales of mortgage loans held for sale	16,745	7,187	1,826
Gain on sale of loans	(310)	(114)	(19)
Net security (gains) losses	(770)	(100)	(14)
Securities impairment loss recognized in earnings	-	444	-
Gain on sale of credit card portfolio	-	(435)	-
(Gain) loss on sale/write-down of other real estate owned	112	24	33
Compensation expense under stock-based compensation plans	84	28	-
Change in other assets and liabilities	(1,503)	(498)	(353)
Net cash from operating activities	1,445	2,257	1,840
Cash flows from investing activities			
Purchases of time deposits with other financial institutions	(13,580)	-	-
Securities available for sale			
Proceeds from maturities and repayments	36,757	28,426	15,753
Proceeds from sales	23,084	25,417	22,662
Purchases	(60,353)	(74,179)	(36,083)
Purchases of property and equipment	(3,437)	(1,462)	(325)
Proceeds from sale of credit card portfolio	-	1,871	-
Proceeds from sale of property and equipment	-	13	211
Proceeds from sale of other real estate owned	191	179	-
Purchase of loans	(1,151)	(6,130)	(6,408)
Net change in loans to customers	(15,118)	(5,210)	(747)
Net cash from investing activities	(33,607)	(31,075)	(4,937)
Cash flows from financing activities			
Net change in deposits	27,731	21,119	(5,158)
Net change in short-term borrowings	(3,565)	3,911	629
Proceeds from Federal Home Loan Bank advances	10,000	4,000	3,000
Repayments Federal Home Loan Bank advances	(4,000)	-	-
Dividends paid	(881)	(1,410)	(1,430)
Purchase of common stock	-	(86)	(434)
Net cash from financing activities	29,285	27,534	(3,393)
Net change in cash and cash equivalents	(2,877)	(1,284)	(6,490)
Beginning cash and cash equivalents	11,001	12,285	18,775
Ending cash and cash equivalents	$ 8,124	$ 11,001	$ 12,285
Supplemental cash flow information:			
Interest paid	$ 4,519	$ 6,070	$ 7,022
Income taxes paid	400	970	662
Supplemental noncash disclosures:			
Transfer from loans to securities available for sale	$ -	$ 20,810	$ -
Transfer from loans to other real estate owned	54	354	124

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include National Bancshares Corporation and its wholly-owned subsidiary, First National Bank, Orrville, Ohio (Bank), together referred to as "the Corporation." The Bank has a minority interest in First Kropf Title, LLC, which is immaterial to the consolidated financial statements. Intercompany transactions and balances are eliminated in consolidation.

The Corporation provides financial services through its main and branch offices in Orrville, Ohio, and branch offices in surrounding communities in Wayne, Medina, Stark and Summit counties. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial and residential mortgage, commercial and consumer installment loans. Most loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments, which potentially represent concentrations of credit risk, include investment securities, deposit accounts in other financial institutions and federal funds sold. There are no significant concentrations of loans to any one industry or customer. However, the customer's ability to repay their loans is dependent on the real estate and general economic conditions of the Corporation's market area.

Segments: As noted above, the Corporation provides a broad range of financial services to individuals and companies in northern Ohio. While the Corporation's chief decision makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Corporation-wide basis. Accordingly, all of the Corporation's financial service operations are considered by management to be aggregated in one reportable operating segment.

Use of Estimates: To prepare financial statements in conformity with U. S. 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 actual results could differ. The allowance for loan losses, fair values of financial instruments and carrying value of intangible assets are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other banks with original maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits with other banks, repurchase agreements and other short-term borrowings.

Time Deposits with Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within eighteen months and are carried at cost.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other than temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale may be sold with servicing rights retained or released. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right for loans sold with servicing retained. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned and deferred income and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is recorded as a reduction in principal, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Wayne, Stark, Summit, Holmes and Medina Counties. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Wayne, Stark, Summit, Holmes and Medina County area.

Purchased Loans: The Corporation purchases individual loans and groups of loans. Purchased loans that show evidence of credit deterioration at the time of purchase are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. 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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Commercial and commercial real estate loans are individually evaluated for impairment. 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. Large groups of smaller balance loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Corporation compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At December 31, 2009 and 2008, the servicing assets of the Corporation totaled $115 and $173, respectively, and are included with other assets on the consolidated balance sheets. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Servicing assets are evaluated for impairment based upon the fair value of the assets compared to carrying amount. Any impairment is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

Servicing fee income is recorded when earned for servicing loans based on a contractual percentage of the outstanding principal or a fixed amount per loan. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at the lower of cost or fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 7 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock: The Bank is a member of the FHLB and FRB systems. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The stocks are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance: The Corporation has purchased life insurance policies on its directors. Life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 represents the future economic benefits arising from other assets acquired that are not individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Corporation has selected September 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset on the Corporation's balance sheet with an indefinite life.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years.

Long-term Assets: These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Benefit Plans: Retirement plan expense is the amount of required matching contributions plus any discretionary contributions to the Corporation's 401(k) plan as determined by Board decision. Director retirement plan expense allocates the benefits over the estimated years of service.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

defined as the vesting period, on an accelerated basis. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Corporation adopted guidance by the Financial Accounting Standards Board (FASB) with respect to accounting for uncertainty in income taxes as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no affect on the Corporation’s financial statements.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer-financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Earnings Per Common Share: Earnings per common share is net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. 53,000 and 58,000 stock options were not considered in computing diluted earnings per common share for 2009 and 2008 because they were antidilutive. No options were outstanding prior to 2008.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which is also recognized as a separate component of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $100 and $100 was required to meet regulatory reserve and clearing requirements at year-end 2009 and 2008. These balances do not earn interest.

Dividend Restriction: Banking regulations require maintaining certain capital levels and limit the dividends paid by the Bank to the holding company or by the holding company to shareholders. Dividends paid by the Bank to the holding company are the primary source of funds for dividends by the holding company to its shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Certain items in the prior year financial statements were reclassified to conform to the current presentation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: In September 2006, the FASB issued guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The guidance was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued guidance that delayed the effective date of this fair value guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The effect of adopting this new guidance was not material.

In December 2007, the FASB issued guidance that establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The guidance is effective for fiscal years beginning on or after December 15, 2008. The effect of adopting this new guidance was not material.

In December 2007, the FASB issued guidance that changes the accounting and reporting for minority interests, which is recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. The guidance was effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The effect of adopting this new guidance was not material.

In March 2008, the FASB issued guidance that amends and expands the disclosure requirements for derivative instruments and hedging activities. The guidance requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. The guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Corporation has expanded its disclosures related to derivative instruments and hedging activities.

In June 2009, the FASB replaced *The Hierarchy of Generally Accepted Accounting Principles*, with the *FASB Accounting Standards Codification* ™ (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

In April 2009, the FASB amended existing guidance for determining whether impairment is other than temporary for debt securities. The guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other than temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other than temporary impairments for debt and equity securities were expanded. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The effect of adopting this new guidance was not material.

In April 2009, the FASB issued guidance that emphasizes the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability's fair value. Adjustments to those transactions or prices should be applied to determine the appropriate fair value. The guidance, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The effect of adopting this new guidance was not material.

(Dollar amounts in thousands, except per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2009, the FASB amended existing guidance for the fair value measurement of liabilities by clarifying that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or that is consistent with existing fair value guidance. The amendments in this guidance also clarify that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance was effective for the first reporting period beginning after issuance. The effect of adopting this new guidance was not material.

Newly Issued Not Yet Effective Standards: In June 2009, the FASB amended previous guidance relating to transfers of financial assets and eliminates the concept of a qualifying special purpose entity. This guidance must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. This guidance must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. The disclosure provisions were also amended and apply to transfers that occurred both before and after the effective date of this guidance. Management is in the process of assessing the impact of adopting this new guidance and the effect on the Corporation's results of operations or financial position.

In June 2009, the FASB amended guidance for consolidation of variable interest entity guidance by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additional disclosures about an enterprise's involvement in variable interest entities are also required. This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. Management is in the process of assessing the impact of adopting this new guidance and the effect on the Corporation's results of operations or financial position.

NOTE 2 – SECURITIES

The amortized cost, fair value and the related gross unrealized gains and losses of available for sale securities recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2009				
U.S. Treasury and federal agency	$ 819	$ -	$ -	$ 819
State and municipal	28,019	763	(99)	28,683
Corporate bond and notes	7,640	137	-	7,777
Mortgage-backed: residential	89,972	3,058	(87)	92,943
Equity securities	23	-	(4)	19
Total debt securities	$ 126,473	$ 3,958	$ (190)	$ 130,241

(Dollar amounts in thousands, except per share data)

NOTE 2 – SECURITIES (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2008				
State and municipal	$ 16,173	$ 234	$ (193)	$ 16,214
Corporate bond and notes	7,630	5	(453)	7,182
Mortgage-backed: residential	101,220	2,616	-	103,836
Equity securities	23	-	(7)	16
Total debt securities	$ 125,046	$ 2,855	$ (653)	$ 127,248

	2009	2008	2007
Sales of available for sale securities were as follows:			
Proceeds	$ 23,084	$ 25,471	$ 22,662
Gross gains	949	330	132
Gross losses	(179)	(230)	(121)
Gross gains from calls	-	-	3
Other than temporary impairment loss	-	(444)	-

The tax provision (benefit) related to these net realized gains and losses was $262, $(34) and $5, respectively.

The amortized cost and fair value of securities at year-end 2009 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities and equity securities, are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ 5,964	$ 6,026
Due from one to five years	4,245	4,408
Due from five to ten years	14,135	14,546
Due after ten years	12,134	12,299
Mortgage-backed: residential	89,972	92,943
Equity securities	23	19
	$ 126,473	$ 130,241

Securities pledged at year-end 2009 and 2008 had a carrying amount of $45,882 and $30,679 and were pledged to secure public deposits and repurchase agreements.

At year-end 2009 and 2008, there were no holdings of securities of any one issuer, other than the U.S. Government, and its agencies and corporations, in an amount greater than 10% of shareholders' equity.

All mortgage-backed securities are issued by the United States government or any agency or corporation thereof, except for $1,535 of private label mortgage-backed securities as of December 31, 2009.

Securities with unrealized losses at year-end 2009 and 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or More		Total	
2009	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipal	$ 4,375	$ (60)	$ 455	$ (39)	$ 4,830	$ (99)
Mortgage-backed: residential	11,761	(87)	-	-	11,761	(87)
Equity securities	19	(4)	-	-	19	(4)
Total temporarily impaired	$ 16,155	$ (151)	$ 455	$ (39)	$ 16,610	$ (190)

(Dollar amounts in thousands, except per share data)

NOTE 2 – SECURITIES (continued)

	Less Than 12 Months		12 Months or More		Total	
2008	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipal	$ 3,406	$ (193)	$ -	$ -	$ 3,406	$ (193)
Corporate bonds and notes	5,166	(453)	-	-	5,166	(453)
Equity securities	16	(7)	-	-	16	(7)
Total temporarily impaired	$ 8,588	$ (653)	$ -	$ -	$ 8,588	$ (653)

Unrealized losses have not been recognized into income because the securities are of high credit quality, management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates or normally expected market pricing fluctuations. The fair value of debt securities is expected to recover as the securities approach their maturity date.

National Bancshares Corporation purchased $467 of FHLMC preferred stock in the first quarter of 2008. During 2008, management determined this preferred stock was other than temporarily impaired. Management recorded $84 and $360 of other than temporary impairment write-downs in the second and third quarter of 2008 related to this investment security. The loss has been recorded in Securities gains (losses), net in the Consolidated Statements of Income. The fair value of these securities at December 31, 2009 and 2008 was $19 and $16 compared to an adjusted cost basis of $23.

NOTE 3 – LOANS

Loans at year end were as follows:

	2009	2008
Collateralized by real estate:		
Commercial	$ 65,139	$ 48,034
Residential	50,390	54,924
Home equity	26,526	24,442
Construction and land development	12,395	12,846
	154,450	140,246
Other:		
Consumer	12,343	14,354
Commercial	26,792	25,583
Other	3,830	1,658
	197,415	181,841
Unearned and deferred income	(438)	(292)
Allowance for loan losses	(2,906)	(1,718)
	$ 194,071	$ 179,831

Activity in the allowance for loan losses was as follows:

	2009	2008	2007
Beginning balance	$ 1,718	$ 2,028	$ 1,993
Provision for loan losses	1,829	482	147
Loans charged-off	(659)	(845)	(151)
Recoveries	18	53	39
Ending balance	$ 2,906	$ 1,718	$ 2,028

(Dollar amounts in thousands, except per share data)

NOTE 3 – LOANS (Continued)

Individually impaired loans were as follows:

	2009	2008
Year-end loans with no allocated allowance for loan losses	$ 2,069	$ 396
Year-end loans with allocated allowance for loan losses	3,692	940
Amount of the allowance for loan losses allocated	916	75

	2009	2008	2007
Average of individually impaired loans during year	$ 2,897	$ 1,846	$ 2,500

The impact on interest income of impaired loans was not significant to the consolidated statements of income.

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	2009	2008
Loans past due over 90 days still on accrual	$ 458	$ 261
Nonaccrual loans	4,716	1,752

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The Bank sold its $1,486 credit card portfolio to Elan Financial Services (Elan), a subsidiary of U.S. Bank National Association ND in July, 2008. Under the agreement, Elan purchased the Bank's existing credit card portfolio, and subsequently will issue credit cards for the Bank utilizing the First National Bank name and logo. First National Bank will continue to earn certain fees from ongoing portfolio activity and new accounts. The transaction generated a $435 gain recorded in the third quarter of 2008.

The Bank securitized $20,897 single-family residential mortgage loans formerly held in its mortgage loan portfolio, with Freddie Mac in December, 2008 as a guaranteed mortgage securitization and retained the resulting securities as available for sale. The Bank has recorded the securities as available for sale and continues to service the loans. The securitization increased the Bank's liquidity as the securities are readily marketable, eliminated credit risk on the loans and increased the Bank's risk-based capital ratio. As a result of the securitization, single-family residential mortgage loan balances net of unamortized loan origination fees declined $20,810, the loan servicing asset increased $132 and securities available for sale increased $21,532. The unrealized gain on the securities at December 31, 2008 was $840 which increased the Bank's accumulated other comprehensive income and capital by $554. During 2009, the Corporation sold a portion of the securities created by the securitization resulting in proceeds of $3.3 million and a gross gain on sale of $152. The Corporation continues to service all of the underlying loans of the guaranteed mortgage securitization, including the portion of the securitization sold during 2009.

NOTE 4 – LOAN SERVICING

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at year-end are as follows:

	2009	2008
Mortgage loan portfolios serviced for:		
FHLMC	$ 29,255	$ 38,011

There were no custodial escrow balances maintained in connection with serviced loans at year-end 2009 and 2008.

(Dollar amounts in thousands, except per share data)

NOTE 4 – LOAN SERVICING (Continued)

Activity for mortgage servicing rights and the related valuation allowance follows:

	2009	2008	2007
Servicing rights:			
Beginning of year	$ 173	$ 67	$ 86
Additions	2	139	19
Amortized to expense	(60)	(33)	(38)
End of year	$ 115	$ 173	$ 67

NOTE 5 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2009	2008
Land	$ 1,571	$ 1,528
Buildings	8,518	6,380
Furniture, fixtures and equipment	4,997	4,764
Construction in progress	183	275
	15,269	12,947
Less: Accumulated depreciation	(6,236)	(6,750)
	$ 9,033	$ 6,197

Depreciation expense was $588, $442 and $457 in 2009, 2008 and 2007.

Rent expense under operating leases included in occupancy was $39, $39 and $38 for the years ended December 31, 2009, 2008 and 2007. Future lease payments are not material.

NOTE 6 – INTANGIBLE ASSETS

During 2002, the Corporation acquired Peoples Financial Corporation and merged the Corporation's banking operations into the Bank. Identified intangible assets totaling $1,791 were recognized and have useful lives of 7 to 10 years. Goodwill of $4,723 was realized from this transaction. Identified intangible assets at year-end were as follows:

	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$ 1,063	$ 866	$ 1,063	$ 772
Branch acquisition intangible	760	760	760	733
Customer relationship intangibles	728	728	728	624
	$ 2,551	$ 2,354	$ 2,551	$ 2,129

Aggregate amortization expense was $225, $232 and $237 for 2009, 2008 and 2007.

Estimated amortization expense for each of the next three years:

2010	$ 89
2011	86
2012	22

Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value, which is determined through a two-step impairment test. Step 1 includes the determination of the carrying value of our single reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. We determined the fair value of our reporting unit and compared it to its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, we are required to perform a second step to the impairment test.

(Dollar amounts in thousands, except per share data)

NOTE 6 – INTANGIBLE ASSETS (Continued)

Our annual impairment analysis as of September 30, 2009, indicated that the Step 2 analysis was not necessary. Step 2 of the goodwill impairment test is performed to measure the impairment loss. Step 2 requires that the implied fair value of the reporting unit goodwill be compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

NOTE 7 – DEPOSITS

	2009	2008
Demand, noninterest-bearing	$ 54,290	$ 46,159
Demand, interest-bearing	117,862	92,515
Savings	46,371	49,642
Time, $100,000 and over	15,712	12,937
Time, other	57,138	62,389
	$ 291,373	$ 263,642

A summary of time deposits at year-end 2009 by maturity follows:

2010	$ 48,537
2011	16,211
2012	1,930
2013	5,576
2014	596
	$ 72,850

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES

At year-end, advances from the Federal Home Loan Bank were as follows:

	2009	2008
Maturity in 2010, fixed rate at 6.26%, convertible to variable rate if 3-month LIBOR is at or above predetermined conversion rate level	$ 1,000	$ 1,000
Maturities in 2010 and 2011, fixed rate at 4.93% to 5.79% at December 31, 2009 and 2008, convertible to variable if 1-month LIBOR is at or above fixed rate	13,000	13,000
Maturities in 2009, fixed rate at 3.95% to 4.10%	-	3,000
Maturities in 2010, fixed rate at 3.19%	1,000	1,000
Maturities in 2011, fixed rate at 2.31% to 2.88%	4,000	3,000
Maturities in 2012, fixed rate at 2.00%	3,000	-
Maturities in 2014, fixed rate at 2.86% to 2.88%	5,000	-
	$ 27,000	$ 21,000

Each advance is payable at its maturity date; advances may be paid prior to maturity subject to a prepayment penalty. As collateral for the advances, the Bank has approximately $45,626 and $49,769 of first mortgage loans available under a blanket lien arrangement at year-end 2009 and 2008.

Required payments over the next four years are:

2010	3.19 to 6.26%	$ 12,000
2011	2.31 to 5.12%	7,000
2012	2.00%	3,000
2014	2.86 to 2.88%	5,000

(Dollar amounts in thousands, except per share data)

NOTE 9 - REPURCHASE AGREEMENTS

Repurchase agreements generally mature within 30 days from the transaction date. Information concerning repurchase agreements is summarized as follows:

	2009	2008	2007
Average balance during the year	$ 7,442	$ 10,134	$ 8,642
Average interest rate during the year	0.26%	1.42%	3.86%
Maximum month-end balance during the year	$ 8,965	$ 11,136	$ 10,956
Weighted average rate at year-end	0.25%	0.50%	2.85%

NOTE 10 – BENEFIT PLANS

The Corporation has a 401(k) retirement plan that covers substantially all employees. The plan allows employees to contribute up to a predetermined amount, subject to certain limitations. Matching contributions may be made in amounts and at times determined by the Corporation. Total matching and discretionary contributions made by the Corporation during 2009, 2008 and 2007 amounted to $73, $81 and $83.

The Corporation has an Employee Stock Purchase Incentive Plan for full-time and most part-time employees. Under the Plan, each employee is entitled to receive a cash payment equal to 20% of the purchase price of Corporation common stock acquired by the employee on the open market, up to a maximum of 100 shares per calendar year. Expenses recognized in 2009, 2008 and 2007 amounted to $2, $1, and $2.

The Corporation has a director retirement and death benefit plan for the benefit of all members of the Board of Directors. The plan is designed to provide an annual retirement benefit to be paid to each director upon retirement from the Board and attaining age 70. The retirement benefit provided to each director is an annual benefit equal to $1 for each year of service on the Board from and after August 24, 1994 until August 2007, when the Board voted to cease further benefits. In addition, each director has the option of deferring any portion of directors' fees to a maximum of $5 per month until retirement.

Interest credited to participant accounts associated with the deferrals was $9, $12 and $29 in 2009, 2008 and 2007. The deferred directors' fee liability was $224 at December 31, 2009 and $374 at December 31, 2008. Expense recognized in 2009, 2008 and 2007 for the director retirement and death benefit plan was $25, $117 and $59. The liability related to the plan was $670 at December 31, 2009 and $680 at December 31, 2008.

NOTE 11 – INCOME TAXES

The components of deferred taxes were as follows:

	2009	2008
Deferred tax assets:		
Bad debts	$ 828	$ 424
Deferred compensation	321	382
Deferred loan fees	223	192
FHLMC preferred stock impairment loss	151	151
Deferred income	43	-
Real estate owned write-down	26	-
Non-accrual loan interest income	17	45
Stock-based compensation	19	10
Core deposit intangibles	-	7
Other	1	5
Total	$ 1,629	$ 1,216

(Dollar amounts in thousands, except per share data)

NOTE 11 – INCOME TAXES (Continued)

	2009	2008
Deferred tax liabilities:		
Unrealized security gains, net	$ 1,281	$ 749
Federal Home Loan Bank stock dividends	542	542
Depreciation	432	321
Purchase accounting adjustments	137	206
Mortgage servicing rights	50	59
Prepaid expenses	25	44
Securities accretion	47	31
Partnership income	2	1
Total	2,516	1,953
Net deferred tax asset (liability)	$ (887)	$ (737)

Federal income tax laws provided that the 2002 acquired entity could claim additional bad debt deductions through 1987, totaling $1.9 million. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total $646 at December 31, 2009. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws were to change, this amount would be expensed.

The components of income tax expense are as follows:

	2009	2008	2007
Currently payable	$ 780	$ 730	$ 515
Deferred	(382)	40	(19)
	$ 398	$ 770	$ 496

The following is a reconciliation of income tax at the federal statutory rate to the effective rate of tax on the financial statements:

	2009		2008		2007	
	Rate	Amount	Rate	Amount	Rate	Amount
Tax at federal statutory rate	34%	$ 682	34%	$1,008	34%	$ 750
Tax-exempt income	(13)	(270)	(7)	(214)	(10)	(228)
Other	(1)	(14)	(1)	(24)	(2)	(26)
Income tax expense	20 %	$ 398	26%	$ 770	22%	$ 496

As of December 31, 2008 and December 31, 2009, the Corporation had no unrecognized tax benefits or accrued interest and penalties recorded. The Corporation does not expect the amount of unrecognized tax benefits to significantly increase within the next twelve months. The Corporation will record interest and penalties as a component of income tax expense.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax in the state of Ohio for National Bancshares. The Bank is subject to tax in Ohio based upon its net worth. The Company is no longer subject to examination by state taxing authorities for years prior to 2006.

NOTE 12 – RELATED-PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates during 2009 were as follows:

Beginning balance	$ 3,776
Effect of changes in composition of related parties	99
New loans	3,002
Repayments	(516)
Ending balance	$ 6,361

(Dollar amounts in thousands, except per share data)

NOTE 12 – RELATED-PARTY TRANSACTIONS (Continued)

Unused commitments to these related parties totaled $3,762 and $969 at year-end 2009 and 2008. Related party deposits totaled $4,749 and $2,050 at year-end 2009 and 2008.

The Corporation has minority ownership in a title agency affiliated with a Director resulting in fee income to the Corporation of $32, $11 and $16 for 2009, 2008 and 2007, respectively.

NOTE 13 – STOCK-BASED COMPENSATION

The Corporation's 2008 Equity Incentive Plan ("the Plan"), which is shareholder-approved, permits the grant of stock options or restricted stock awards, to its officers, employees, consultants and non-employee directors for up to 223,448 shares of common stock.

Stock Option Awards

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant; those option awards have vesting periods determined by the Corporation's compensation committee and have terms that shall not exceed 10 years.

On May 20, 2008, the Corporation granted options to purchase 58,000 shares of stock to directors and certain key officers, all of which remained outstanding at December 31, 2008. The exercise price of the options is $18.03 per share. The options vest in five equal installments over a five-year period and have a term of 10 years. 5,000 options were forfeited during 2009 leaving 53,000 outstanding at December 31, 2009. All options are expected to vest.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Corporation's common stock. The Corporation has estimated the option exercise and post-vesting termination behavior and expected term of options granted due to the lack of historical data. The expected term of options granted represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferrable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted of $1.83 per option was determined using the following weighted-average assumptions as of grant date.

Risk-free interest rate	3.19%
Expected term (years)	6.5
Expected stock price volatility	13.76%
Dividend yield	3.60%

The total compensation cost that has been charged against income for the plan was $34 and $28 for 2009 and 2008. The total income tax benefit was $12 and $10 for 2009 and 2008. There was $38 and $78 of total unrecognized compensation cost related to nonvested stock options granted under the Plan as of December 31, 2009 and 2008. The cost is expected to be recognized over a weighted-average period of 3.4 years. At December 31, 2009, 10,600 options are vested and the outstanding options have no intrinsic value. The weighted average remaining contractual term is 8.4 years.

Restricted Stock Awards

On December 23, 2009, the Company issued restricted stock awards for 3,605 shares of the Corporation's common stock to certain officers.

The awards vested immediately and the compensation expense related to the awards of $50 was recorded in 2009. The fair value of the stock was determined using closing market price of the Corporation's common stock on the date of the grant.

(Dollar amounts in thousands, except per share data)

NOTE 14 – REGULATORY CAPITAL MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2009, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2009 and 2008, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios for the Bank are presented below at year-end.

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2009						
Total capital to risk weighted assets	$ 29,842	12.46%	$ 19,161	8.00%	$ 23,952	10.00%
Tier 1 capital to risk weighted assets	26,936	11.25%	9,581	4.00%	14,371	6.00%
Tier 1 capital to average assets	26,936	7.40%	14,562	4.00%	18,202	5.00%

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2008						
Total capital to risk weighted assets	$ 26,730	12.60%	$ 16,971	8.00%	$ 21,213	10.00%
Tier 1 capital to risk weighted assets	25,012	11.79%	8,485	4.00%	12,728	6.00%
Tier 1 capital to average assets	25,012	7.78%	12,853	4.00%	16,066	5.00%

Dividend Restrictions—The Corporation’s principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. The Bank could, without prior approval, pay dividends to the holding Corporation of approximately $437 as of December 31, 2009.

NOTE 15 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

(Dollar amounts in thousands, except per share data)

NOTE 15 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2009	2008
Commitments to make loans	$ 2,531	$ 2,382
Unused lines of credit	60,567	49,389
Letters of credit	308	109

Of the above unused instruments at December 31, 2009, approximately $9,974 pertains to fixed-rate commitments and variable-rate commitments account for approximately $53,432. At year-end 2008, approximately $10,065 of total commitments were fixed-rate and approximately $41,815 were variable rate. Rates on fixed-rate unused lines of credit ranged from 6.25% to 21.90% at December 31, 2009 and 6.25% to 19.80% at December 31, 2008.

NOTE 16 - 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) for 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 an asset or liability.

The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of servicing rights is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Corporation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less cost to sell. Fair Values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors.

(Dollar amounts in thousands, except per share data)

NOTE 16 - FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

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

	Fair Value Measurements At December 31, 2009 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:			
U.S. Government and federal agency	$ -	$ 819	$ -
State and municipal	-	28,683	-
Corporate bonds and notes	-	7,777	-
Mortgage-backed securities - residential	-	92,943	-
Equity securities	19	-	-
Interest rate swaps	-	4	-

	Fair Value Measurements At December 31, 2009 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:			
Interest rate swaps	-	4	-

	Fair Value Measurements At December 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	$ 16	$127,232	$ -

Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements At December 31, 2009 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	$ -	$ -	$ 3,626
Other real estate owned	-	-	58

(Dollar amounts in thousands, except per share data)

NOTE 16 - FAIR VALUE (Continued)

	Fair Value Measurements At December 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:			
Impaired loans	$ -	$ -	$ 865

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal amount of $4,542, with a valuation allowance of $916, resulting in an additional provision for loan loss of $1,091.

Other real estate owned measured at fair value less costs to sell, had a net carrying amount of $58, which is made up of the outstanding balance of $133, net of a valuation allowance of $75 at December 31, 2009, resulting in a write-down of $75 for the year ending December 31, 2009.

Carrying amounts and estimated fair values of financial instruments at year-end were as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 8,124	$ 8,124	$ 11,001	$ 11,001
Time deposits with other financial Institutions	13,580	13,580	-	-
Securities available for sale	130,241	130,241	127,248	127,248
Restricted equity securities	3,218	na	3,217	na
Loans, net	194,071	194,103	179,831	179,586
Accrued interest receivable	1,334	1,334	1,230	1,230
Interest rate swaps	4	4	-	-
Financial liabilities				
Deposits	291,373	292,045	263,642	264,731
Short-term borrowings	9,720	9,720	13,285	13,285
Federal Home Loan Bank advances	27,000	27,779	21,000	21,239
Accrued interest payable	408	408	690	690
Interest rate swaps	4	4	-	-

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, time deposits with other financial institutions, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

NOTE 17 – DERIVATIVES

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The Corporation implemented a program whereby it lends to its borrowers at a fixed rate with the loan agreement containing a two-way yield maintenance provision in the first quarter of 2009. If the borrower prepays the loan, the yield maintenance provision will result in a prepayment penalty or benefit depending on the interest rate environment

(Dollar amounts in thousands, except per share data)

NOTE 17 – DERIVATIVES (Continued)

at the time of the prepayment. This provision represents an embedded derivative which is required to be bifurcated from the host loan contract. As a result of bifurcating the embedded derivative, the Corporation records the transaction with the borrower as a floating rate loan and a pay floating / receive fixed interest-rate swap. To offset the risk of the interest-rate swap with the borrower, the Corporation enters interest-rate swaps with outside counterparties that mirror the terms of the interest-rate swap between the Corporation and the borrower. Both interest-rate swaps are carried as freestanding derivatives with their changes in fair value reported in current earnings. The change in the fair value of the interest-rate swap with borrowers was a decrease of $4 for the year ended December 31, 2009, which was offset by an equal increase in value during the year ended December 31, 2009 on the interest-rate swaps with outside parties, with the result that there was no impact on income as of December 31, 2009.

Summary information about the interest-rate swap between the Corporation and its borrower as of year-end is as follows:

Notional amount	$ 1,544
Weighted average receive rate	5.33%
Weighted average pay rate	3.88%
Weighted average maturity (years)	4.0
Fair value of interest-rate swap	$ 4

Summary information about the interest-rate swap between the Corporation and an outside party as of year-end is as follows:

Notional amount	$ 1,544
Weighted average pay rate	5.33%
Weighted average receive rate	3.88%
Weighted average maturity (years)	4.0
Fair value of interest-rate swap	$ (4)

The fair value of the interest-rate swaps at year-end is reflected in other assets and other liabilities with a corresponding offset to noninterest income.

NOTE 18 – OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income components and related tax effects were as follows:

	2009	2008	2007
Unrealized holding gains on available for sale securities	$ 2,337	$ 571	$ 717
Reclassification adjustment for losses (gains) later recognized in income	(770)	344	(14)
Net unrealized gains	1,567	915	703
Initial unrealized gain on mortgage-backed securities received in securitization	-	840	-
Tax effect	(533)	(597)	(239)
Other comprehensive income	$ 1,034	$ 1,158	$ 464

(Dollar amounts in thousands, except per share data)

NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial statements for National Bancshares Corporation (parent only) are as follows:

BALANCE SHEETS	December 31, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 4,438	$ 5,327
Investment in Bank subsidiary	34,389	31,675
Securities available for sale	19	16
Other assets	234	215
Total assets	$ 39,080	$ 37,233
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 177	$ 352
Shareholders' equity	38,903	36,881
Total liabilities and shareholders' equity	$ 39,080	$ 37,233

STATEMENTS OF INCOME	Years ended December 31, 2009	2008	2007
INCOME			
Dividends from Bank subsidiary	$ -	$ 2,500	$ 3,000
Securities losses, net	-	(444)	1
Dividend income	-	16	-
Total Income	-	2,072	3,001
EXPENSES			
Miscellaneous expense	(59)	(72)	(85)
Income (loss) before income tax benefit and undistributed subsidiary income	(59)	2,000	2,916
Income tax benefit	20	170	29
Undistributed equity in (distributions in excess of) net income of Bank subsidiary	1,648	24	(1,234)
Net income	$ 1,609	$ 2,194	$ 1,711

(Dollar amounts in thousands, except per share data)

NOTE 19 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

STATEMENTS OF CASH FLOWS	Years ended December 31, 2009	2008	2007
Cash flows from operating activities			
Net income	$ 1,609	$ 2,194	$ 1,711
Adjustments to reconcile net income to net cash from operating activities:			
Distributions in excess of (equity in undistributed net income) of Bank subsidiary	(1,648)	(24)	1,234
Net security (gains) loss	-	444	(1)
Change in other assets and liabilities	31	(170)	(14)
Net cash from operating activities	(8)	2,444	2,930
Cash flows from investing activities			
Proceeds from sale of securities	-	-	1
Purchase of security available for sale	-	(467)	-
Net cash from investing activities	-	(467)	1
Cash flows from financing activities			
Dividends paid	(881)	(1,410)	(1,430)
Purchase of common stock	-	(86)	(434)
Net cash from financing activities	(881)	(1,496)	(1,864)
Net change in cash	(889)	481	1,067
Beginning cash and cash equivalents	5,327	4,846	3,779
Ending cash and cash equivalents	$ 4,438	$ 5,327	$ 4,846

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
National Bancshares Corporation
Orrville, Ohio

We have audited the accompanying consolidated balance sheets of National Bancshares Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Corporation Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Bancshares Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Cleveland, Ohio
March 19, 2010

REPORT OF MANAGEMENT ON THE CORPORATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING

March 1, 2010

Management of National Bancshares Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

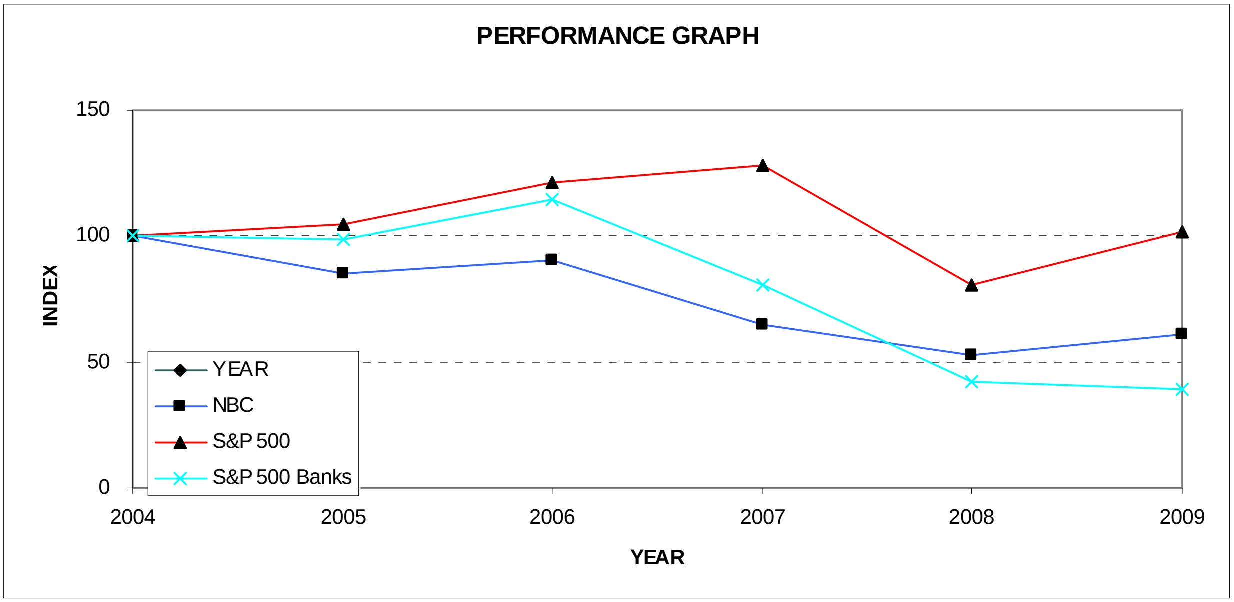
Management of National Bancshares Corporation, including the Chief Executive Officer and the Chief Financial Officer, has assessed the Corporation's internal control over financial reporting as of December 31, 2009, based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2009, based on the specified criteria.

This annual report does not include an audit report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to audit by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this annual report.

David C. Vernon
Chief Executive Officer

James R. VanSickle
Chief Financial Officer

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN OF NATIONAL BANCSHARES CORPORATION, S&P 500 STOCK INDEX, AND S&P 500 BANK INDEX



	2004	2005	2006	2007	2008	2009
National Bancshares Corp	$100.00	85.24	90.24	64.67	52.85	61.11
S&P 500 Stock Index*	$100.00	104.91	121.48	128.16	80.74	102.11
S&P 500 Banks Index*	$100.00	98.54	114.41	80.33	42.18	39.40

- National Bancshares Corporation is not included in the S&P 500 Bank Index or S&P 500 Stock Index.

PRICE RANGE OF COMMON STOCK

National Bancshares Corporation common stock is traded on the OTC Bulletin Board under the symbol "NBOH." The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. A summary of the high and low prices of and cash dividends paid on National Bancshares Corporation common stock in 2009 and 2008 follows. This information does not reflect retail mark-up, markdown or commissions, and does not necessarily represent actual transactions.

	High	Low	Dividends per share
2009			
First Quarter	$ 14.65	$ 11.96	$ .08
Second Quarter	14.64	13.02	.08
Third Quarter	14.08	12.90	.08
Fourth Quarter	17.90	13.52	.08
2008			
First Quarter	$ 18.10	$ 16.20	$ .16
Second Quarter	18.50	14.50	.16
Third Quarter	16.69	14.30	.16
Fourth Quarter	16.00	11.60	.16

SHAREHOLDER INFORMATION

Corporate Office
National Bancshares Corporation
112 West Market Street, PO Box 57
Orrville, OH 44667
www.discoverfirstnational.com

Stock Trading Information
The shares of common stock of National Bancshares Corporation are traded on the OTC Bulletin Board. The ticker symbol for National Bancshares Corporation is "NBOH." The Corporation had 876 shareholders of Record as of December 31, 2009.

Form 10-K
A copy of the Corporation's 2009 Annual Report on Form 10-K as filed with the SEC will be furnished free of charge to shareholders upon written request to the Corporation.

Shareholder Assistance
National Bancshares Corporation
Shareholder Services Department
Ellen Gerber, Shareholder Relations
330-765-0609
ellengerber@discoverfirstnational.com

Transfer Agent
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
1-800-368-5948
info@rtco.com
www.rtco.com

National Bancshares Corporation has a Dividend Reinvestment Plan and a Dividend Direct Deposit Plan available at no cost. Please contact Registrar and Transfer Company for enrollment.

OFFICERS

NATIONAL BANCSHARES CORPORATION

David C. Vernon, President and Chief Executive Officer
James R. VanSickle, Senior Vice President and Chief Financial Officer
Paul G. Kubiak, Senior Vice President and Secretary

FIRST NATIONAL BANK

David C. Vernon, President and Chief Executive Officer

Business Banking

Thomas R. Poe, Senior Vice President, Senior Loan Officer
John L. Falatok, Senior Vice President, Market Manager
John R. Macks, Vice President
Paul A. Manghillis, Vice President
Robert C. McConnell, Vice President
John D. Shultz, Jr., Vice President
Darrell L. Smucker, Vice President
Laura R. Yoder, Assistant Vice President

Mortgage Banking

Cynthia A. Wagner, Assistant Vice President
Matthew M. Miller, Assistant Vice President, Mortgage Consultant

Credit Administration

Richard A. White, Vice President, Senior Credit Officer
Kathryn J. Barnes, Assistant Vice President, Credit Officer
Dallas W. Falb, Credit Officer

Loan Operations, Consumer Lending and Managed Assets

Steven L. Riddick, Vice President
Lisa M. Bryant, Loan Operations Officer
Mindy L. Henderson, Loan Operations Officer
Patricia J. Massaro, Loan Officer

Retail Banking

Paul G. Kubiak, Senior Vice President, Retail Banking
John P. Hall, Vice President, Wooster Market Manager
Harold D. Berkey, Vice President, Relationship Manager
Amberly M. Wolf, Assistant Vice President, Retail Banking
Paul J. Bayus, Assistant Vice President, Relationship Manager
Dean M. Karhan, Assistant Vice President, Relationship Manager
Heather L. Kiner, Assistant Vice President, Relationship Manager
Jill R. Wachtel, Assistant Vice President, Relationship Manager

Corporate

James R. VanSickle, Senior Vice President, Chief Financial Officer
James T. Griffith, Vice President, Information Technology
Pamela S. Null, Vice President, Compliance, BSA, CRA and Security
Michael G. Oberhaus, Vice President, Financial Analyst, Risk Manager
Maria A. Roush, Vice President, Auditor
Angela L. Smith, Controller
Jodi R. Blair, Deposit Operations Officer

BOARD OF DIRECTORS
NATIONAL BANCSHARES CORPORATION &
FIRST NATIONAL BANK

Sara Steinbrenner Balzarini
Partner,
Paramount Tennis, LLC.

John P. Cook, CPA, Ph.D
Shareholder,
Long, Cook & Samsa, Inc.

Bobbi E. Douglas
Executive Director,
STEPS at Liberty Center
Every Woman's House

John W. Kropf
Chairman of the Board,
National Bancshares Corporation
First National Bank
Attorney,
Kropf, Wagner, Lutz
& VanSickle, L.L.P.

John L. Muhlbach, Jr.
Vice President,
A.A. Hammersmith, Inc.

Victor B. Schantz
President,
Schantz Organ Company

Steve Schmid
President,
Dairy Enterprises, Inc.

James R. Smail
Chairman/Director
J.R. Smail, Inc.
Poulson Drilling, Inc.
Monitor Ranch, Inc.
Monitor Bancorp, Inc.

David C. Vernon
President & CEO,
National Bancshares Corporation
First National Bank

Howard J. Wenger
President,
Wenger Excavating, Inc.
Lake Region Oil, Inc.
Northstar Asphalt, Inc.
Massillon Materials, Inc.
Stark Materials, Inc.

Albert W. Yeagley
Vice President, Industry & Government Affairs
The J. M. Smucker Company

FIRST NATIONAL BANK OFFICES

Orrville
112 W. Market St.
330-682-1010

1320 W. High St.
330-682-2881

1720 N. Main St.
CASH ATM ONLY

Apple Creek
7227 E. Lincoln Way
330-264-8070

Dalton
12 W. Main St.
330-828-2227

Fairlawn
3085 West Market Street
330-475-1363

Kidron
4950 Kidron Rd.
330-857-3101

Lodi
106 Ainsworth St.
330-948-1414

Massillon
211 Lincoln Way E.
330-832-7441

2312 Lincoln Way N.W.
330-833-1622

51 Massillon Marketplace Dr. S.W.
CASH ONLY ATM

Mt. Eaton
15974 E. Main St.
330-359-3105 or 330-857-4301

Seville
4885 Atlantic Dr.
330-769-3105

Smithville
153 E. Main St.
330-669-2611

Wooster
4192 Burbank Rd.
330-263-5303

1725 Cleveland Rd.
330-263-1725

Exhibit 14.1

NATIONAL BANCSHARES CORPORATION
CODE OF BUSINESS CONDUCT AND ETHICS

PURPOSE

National Bancshares Corporation (the "Company") requires that all directors, officers and employees abide by the fundamental principles of ethical behavior listed here in performing their duties.

GENERAL OBJECTIVE

This Code of Business Conduct and Ethics ("Code") for the Company sets forth basic principles and guidelines for directors, officers and employees which are intended to assist them in conducting the Company's affairs and business in accordance with law and business ethics. It is impossible, however, to anticipate all the situations in which legal and business ethical questions might arise. The best overall guidelines are individual conscience, common sense and a careful, knowing compliance with law.

The Company has designated the President/Chief Executive Officer ("CEO") and the VP Compliance to assist employees in resolving questions they may have regarding the interpretation and application of the Code. Employees should not hesitate to take advantage of this help and assistance.

POLICY ELEMENTS

AUTHORITY

Personal Responsibility

Every director, officer, and employee has the personal responsibility to read, know and comply with the principles contained in this Code. For employees, compliance with these principles is a condition of employment, and failure to comply will result in discipline up to and including termination. The Board of Directors (the "Board") shall determine the actions to be taken in the event of violations of the Code by senior management. Such actions shall be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Code. Every director, officer and employee has the duty to bring to the attention of the Chairs of the Audit or Corporate Governance and Nominating Committees of the Board any activity that in his judgment would violate the principles of this Code.

SPECIFIC GOALS

Reporting Ethical, Legal or Financial Integrity Concerns

Any person may report any ethical concern or any potential or actual legal or financial violation, including any fraud, accounting, auditing, tax, or record-keeping matter directly to the Chair of the Audit Committee, the President and CEO, or the Chief Financial Officer, or anonymously using the Company's website based Compliance Hotline.

The Company will not permit retaliation against any employee who reports an ethical, legal or financial concern nor will it discipline any employee for making a report in good faith.

Integrity of Recording and Reporting our Financial Results

We properly maintain accurate and complete financial and other business records, and communicate full, fair, accurate, timely and understandable financial results. In addition, we recognize that various officers and employees of the Company must meet these requirements for the content of reports to the U.S. Securities and Exchange Commission ("Commission"), and for the content of other public communications made by the Company.

Avoiding Conflicts of Interest

We avoid relationships or conduct that might compromise judgment or create actual or apparent conflicts between our personal interests and our loyalty to the Company. We do not use our position with the Company to obtain improper benefits for others or ourselves. We do not compete with the Company.

Insider Trading

We follow the Company's Insider Trading Policy and understand that the securities laws impose severe sanctions upon any individual who uses "inside information" for his own benefit or discloses it to others for their use.
Obeying the Law

We respect and obey the laws, rules and regulations applying to our business.

Offering/Accepting Gifts, Entertainment, Bribes or Kickbacks

We do not offer or accept gifts or entertainment of substantial value. We do not offer or accept bribes or kickbacks.
Protecting Our Assets and Confidentiality

We use the Company's property, information and opportunities for the Company's business purposes and not for unauthorized use. We properly maintain the confidentiality of information entrusted to us by the Company, its suppliers and its customers.

Selling to Governments

We comply with the special laws, rules and regulations that relate to government contracts and relationships with government personnel.

Political Contributions

We do not make contributions on behalf of the Company to political candidates or parties even where lawful.

Competing Ethically

We gain competitive advantage through superior performance. We do not engage in unethical or illegal trade practices. Our business records and communications involving our products and services are truthful and accurate.

Respecting Diversity and Fair Employment Practices

We are committed to respecting a culturally diverse workforce through practices that provide equal access and fair treatment to all employees on the basis of merit. We do not tolerate harassment or discrimination in the workplace.

RISK MANAGEMENT

Waivers of the Code

Any waiver of this Code shall be made only by the Board, and shall be promptly publicly disclosed as required by the Commission rules.

Exhibit 14.2

CODE OF ETHICAL CONDUCT
FOR FINANCE PERSONNEL AND OFFICERS

PURPOSE

The financial officers of National Bancshares Corporation (“Company”), being the President and Chief Executive Officer, Chief Financial Officer and persons in like positions (collectively, “Finance Officers”), as well as the “Finance Department personnel” (as defined herein) for the Company, bear a special responsibility both inside and outside of the Company for promoting integrity. They have a special role both to elaborate these principles and to ensure that a culture exists throughout the Company that ensures fair and timely reporting of the Company's financial results and condition.

DEFINITIONS

For purposes of this Code of Ethical Conduct for Finance Personnel and Officers (“Financial Code of Ethics”), “Finance Department personnel” include all of the following positions within the Company: (1) controller, (2) assistant controller(s), (3) treasurer, (4) assistant treasurer(s), (5) risk manager, (6) tax manager, and (7) the principal accounting personnel at any subsidiary company or division.

SPECIFIC GOALS

Because of their special role, the Finance Officers and the Finance Department personnel are bound by this Financial Code of Ethics and each must:

- Act honestly and ethically to conduct themselves in an honest and ethical manner in their professional duties, including their handling of actual or apparent conflicts of interest between personal and professional relationships.
- Provide information that is accurate, complete, objective, relevant, and timely to ensure full, fair, accurate, and timely disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications.
- Comply with applicable financial rules and regulations.
- Promptly report in writing, by e-mail or telecopy, to the Chair of the Company’s Audit Committee and the President and Chief Executive Officer, any conduct that the individual believes to be a violation of law or business ethics or of any provision of the Financial Code of Ethics, including any transaction or relationship that reasonably could be expected to give rise to such a conflict. Anonymity will be maintained.

Violations of the Financial Code of Ethics, including failures to report potential violations by others, will be viewed as a severe disciplinary matter that may result in personnel action, including termination of employment.

It is against Company policy to retaliate against any employee for good faith reporting of violations of this Financial Code of Ethics.

Exhibit 21

Subsidiaries of National Bancshares Corporation

First National Bank, a national bank, is 100% owned by National Bancshares Corporation. NBOH Properties, LLC, an Ohio LLC, is 100% owned by National Bancshares Corporation. First Kropf Title, L.L.C., an Ohio limited liability company, is 49% owned by First National Bank.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 033-63005 on Form S-3D of our report dated March 19, 2010, which report is incorporated by reference in Form 10-K for the National Bancshares Corporation for the year ended December 31, 2009.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio
March 30, 2010

Exhibit 31.1

CERTIFICATION

I, David C. Vernon, certify that:

1. I have reviewed this Annual Report on Form 10-K of National Bancshares Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2010

/s/ David C. Vernon
David C. Vernon
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James R. VanSickle, certify that:

1. I have reviewed this Annual Report on Form 10-K of National Bancshares Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2010

/s/ James R. VanSickle
James R. VanSickle
Senior Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of National Bancshares Corporation (the "Corporation") for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, David C. Vernon, President and Chief Executive Officer of the Corporation, and James R. VanSickle, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

This Certification is executed as of March 30, 2010.

/s/ David C. Vernon
David C. Vernon
President and Chief Executive Officer

/s/ James R. VanSickle
James R. VanSickle
Sr. Vice President and Chief Financial Officer