

FARMERS NATIONAL BANC CORP /OH/

Form 10-K

March 16, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008**

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____**

Commission file number **0-12055**

Farmers National Banc Corp.

(Exact name of registrant as specified in its charter)

Ohio

34-1371693

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

20 South Broad Street
Canfield, Ohio

44406

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 330-533-3341

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The registrant estimates that the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$93.3 million based upon the last sales price as of June 30, 2008. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

As of February 28, 2009, the registrant had outstanding 13,230,462 shares of common stock having no par value.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts of Form 10-K into which Document is Incorporated
Portions of 2008 Annual Report to Shareholders	II
Definitive proxy statement for the 2008 Annual Meeting of Shareholders to be held on April 23, 2009	III

Table of Contents

Form 10-K Cross Reference Index to Items Incorporated by Reference to the 2008 Annual Report to Shareholders

	Pages
Part I	
Item 1 Business	
Average Balance Sheets/Yields/Rates	8
Rate and Volume Analysis	9
Securities	15-16
Loans	13
Loan Loss Experience	14-15
Deposits	16
Financial Ratios	7
Short-Term Borrowings	16, 31
Part II	
Item 5	
Market For Registrant's Common Stock, Number of Holders of Common Stock and Dividends on Common Stock	6
Item 6	
Selected Financial Data	7
Item 7	
Management's Discussion and Analysis of Financial Condition and Results of Operations	9-17
Item 7A	
Quantitative and Qualitative Disclosures About Market Risk	11-12
Item 8	
Financial Statements and Supplementary Data	20-36
Item 9A	
Management's Report on Internal Control Over Financial Reporting	18
Part IV	
Item 15	
Report of Independent Registered Public Accounting Firm	19
Financial Statements:	
Consolidated Balance Sheets December 31, 2008 and 2007	20
Consolidated Statements of Income & Comprehensive Income Calendar Years 2008, 2007 and 2006	21
Consolidated Statement of Stockholders' Equity Calendar Years 2008, 2007 and 2006	22
Consolidated Statements of Cash Flows Calendar Years 2008, 2007 and 2006	23
Notes to Consolidated Financial Statements	24-36

FARMERS NATIONAL BANC CORP.
FORM 10-K
2008
INDEX

<u>Part I.</u>		
<u>Item 1.</u>	<u>Business: General</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	4
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	8
<u>Item 2.</u>	<u>Properties</u>	8
<u>Item 3.</u>	<u>Legal Proceedings</u>	9
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	9
 <u>Part II.</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchase of Equity Securities</u>	9
<u>Item 6.</u>	<u>Selected Financial Data</u>	10
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition And Results of Operations</u>	10
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	10
<u>Item 8</u>	<u>Financial Statements and Supplementary Financial Data</u>	10
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	10
<u>Item 9A.</u>	<u>Controls and Procedures</u>	10
<u>Item 9B.</u>	<u>Other Information</u>	11
 <u>Part III.</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	11
<u>Item 11.</u>	<u>Executive Compensation</u>	12
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	12
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u>	13
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	13
 <u>Part IV.</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules, and Reports on Form 8-K</u>	13
	<u>Signatures</u>	14
	<u>Index to Exhibits</u>	15
Certifications of Chief Executive Officer		
Certifications of Chief Financial Officer		
Section 1350 Certification (Chief Executive Officer)		
Section 1350 Certification (Chief Financial Officer)		
EX-13 Annual Report		
EX-23.A Consent of Crowe Horwath LLP		
EX-31.A Certification of CEO		
EX-31.B Certification of CFO		
EX-32.A 906 Certification of CEO		
EX-32.B 906 Certification of CFO		
<u>EX-10.2</u>		
<u>EX-10.3</u>		

[EX-10.4](#)

[EX-13](#)

[EX-23.a](#)

[EX-31.a](#)

[EX-31.b](#)

[EX-32.a](#)

[EX-32.b](#)

Table of Contents

Part I

Item 1. Business General

The Corporation

The registrant, Farmers National Banc Corp. (herein sometimes referred to as the Corporation), is a one-bank holding company registered under the Bank Holding Company Act of 1956, as amended. The only subsidiary is The Farmers National Bank of Canfield (the Bank). The Corporation was formed in 1983 to acquire the shares of the Bank. The Corporation and its subsidiary operate in one industry, domestic banking.

The Corporation conducts no business activities except for investment in securities permitted under the Bank Holding Company Act. Bank holding companies are permitted under Regulation Y of the Board of Governors of the Federal Reserve System to engage in other activities such as leasing and mortgage banking.

The Bank

The Bank is a full-service national bank engaged in commercial and retail banking in Mahoning, Trumbull and Columbiana Counties in Ohio. The Bank's commercial and retail banking services include checking accounts, savings accounts, time deposit accounts, commercial, mortgage and installment loans, home equity loans, home equity lines of credit, night depository, safe deposit boxes, money orders, bank checks, automated teller machines, internet banking, travel cards, E-Bond transactions, utility bill payments, MasterCard and Visa credit cards, brokerage services and other miscellaneous services normally offered by commercial banks.

A discussion of the general development of the Bank's business and information regarding its key segments throughout 2008, is located within the section Management Discussion and Analysis of Financial Condition and Results of Operations located on pages 9 through 17 of the Corporation's Annual Report.

Please see the Financial Statements and Supplementary Financial Data provided under Item 8 of this Form 10-K for financial and statistical information regarding the Bank's segments, revenue from external customers, profits, and total assets as of the fiscal year ended December 31, 2008.

The Bank faces significant competition in offering financial services to customers. Ohio has a high density of financial institution offices, many of which are branches of significantly larger institutions that have greater financial resources than the Bank, and all of which are competitors to varying degrees. Competition for loans comes principally from savings banks, savings and loan associations, commercial banks, mortgage banking companies, credit unions, insurance companies and other financial service companies. The most direct competition for deposits has historically come from savings and loan associations, savings banks, commercial banks and credit unions. Additional competition for deposits comes from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies.

The Corporation has no employees. The Bank had 260 full-time equivalent employees at December 31, 2008.

The Bank's internet site, www.fnbcnfield.com contains an Investor Relations section which provides a hyperlink to the SEC where the Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, director and Officer Reports on Form(s) 3, 4, and 5 and amendments to those documents filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after the Corporation has filed these documents with the Securities and Exchange Commission (SEC). In addition, the Corporation's filings with the SEC may be read and copied at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the

Table of Contents

Item 1 (Continued)

Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings are also available on the SEC's web-site at www.sec.gov free of charge as soon as reasonably practicable after the Corporation has filed the above referenced reports.

Supervision and Regulation

The Corporation is regulated by the Federal Reserve Bank (the FRB). The Bank is regulated by the Office of the Comptroller of the Currency (the OCC), as well as the Federal Deposit Insurance Corporation (the FDIC). A listing of the minimum regulatory requirements for capital and the Corporation's capital position as of December 31, 2008 are presented in Note K on pages 32 and 33 of the annual report to shareholders for the year ended December 31, 2008 and is hereby incorporated by reference.

The Corporation is subject to regulation under the Bank Holding Company Act of 1956, as amended. This Act restricts the geographic and product range of bank holding companies by defining the types and locations of institutions the holding companies can own or acquire. This act also regulates transactions between the Corporation and the Bank and generally prohibits tie-ins between credit and other products and services.

The Bank is subject to regulation under the National Banking Act and is periodically examined by the OCC and is subject to the rules and regulations of the FRB. As an insured institution and member of the Bank Insurance Fund (BIF), the Bank is also subject to regulation by the FDIC. Establishment of branches is subject to approval of the OCC and geographic limits established by state law. Ohio branch banking law permits a bank having its principal place of business in the state to establish branch offices in any county in Ohio without geographic restrictions.

FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) revised the bank regulatory and funding provisions of the Federal Deposit Insurance Act and several other federal banking statutes. Among other things, FDICIA requires federal banking agencies to broaden the scope of corrective action taken with respect to banks that do not meet minimum capital requirements and to take such actions promptly in order to minimize losses to the FDIC.

FDICIA established five capital tiers: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized and imposes significant restrictions on the operations of a depository institution that is not in either of the first two of such categories. A depository institution's capital tier depends upon the relationship of its capital to various capital measures. A depository institution is deemed to be well capitalized if it significantly exceeds the minimum level required by regulation for each relevant capital measure, adequately capitalized if it meets each such measure, undercapitalized if it is significantly below any such measure and critically undercapitalized if it fails to meet any critical capital level set forth in regulations. An institution is deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating or is deemed to be in an unsafe or unsound condition or to be engaging in unsafe or unsound practices.

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier I risk-based capital ratio of at least 6% and a Tier I leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized, it must have a total risk-based capital ratio of at least 8%, a Tier I risk-based capital ratio of at least 4% and a Tier I leverage ratio of at least 4% (or in some cases 3%). Under the regulations, an institution is deemed to be undercapitalized if the bank has a total risk-based capital ratio that is less than 8%, a Tier I risk-based capital ratio that is less than 4% or a Tier I leverage ratio of less than 4% (or in some cases 3%). An institution is deemed to be significantly undercapitalized if the bank has a total risk-based capital ratio that is

Table of Contents

Item 1 (Continued)

less than 6%, a Tier I risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3% and is deemed to be critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2%.

Interstate Banking and Branching Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the IBBEA) authorizes interstate acquisitions of banks and bank holding companies without geographic constraint. The IBBEA also authorized banks to merge with banks located in another state.

After acquiring interstate branches through a merger, a bank may establish additional branches in that state at the same locations as any bank involved in the merger could have established branches under state and federal law. In addition, a bank may establish a de novo branch in another state that expressly permits the establishment of such branches. A bank that establishes a de novo interstate branch may thereafter establish additional branches on the same basis as a bank that has established interstate branches through a merger transaction.

GRAMM-LEACH-BLILEY ACT

The Gramm-Leach-Bliley Act of 1999 (the GLB Act) allows new opportunities for banks, other depository institutions, insurance companies and securities firms to combine to form a single financial services organization to offer customers a broader choice of financial products and services. The GLB Act authorized the Federal Reserve Board to oversee all regulatory activities through the financial holding company, while the functional regulation of operating subsidiaries remains with their primary functional regulator. The GLB Act requires institutions to maintain Community Reinvestment Act ratings of satisfactory or higher in order to engage in any new financial activities. This act also established a federal right to privacy of non-public personal information of individual customers.

SARBANES-OXLEY ACT OF 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Section 302(a) of Sarbanes-Oxley requires the Corporation's chief executive officer and chief financial officer to certify that the Corporation's Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Corporation's internal controls; they have made certain disclosures to the Corporation's auditors and the audit committee of the Board of Directors about the Corporation's internal controls; and they have included information in the Corporation's Quarterly and Annual Reports about their evaluation and whether there have been significant changes in the Corporation's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

EMERGENCY ECONOMIC STABILIZATION ACT OF 2008

The Emergency Economic Stabilization Act of 2008 temporarily increased the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000. The legislation provides that the deposit insurance limit will return to \$100,000 on January 1, 2010.

In addition, the legislation created the Troubled Assets Relief Program (TARP). Under TARP, the U.S. Treasury established a Capital Purchase Program to provide funding to eligible financial institutions through the purchase of capital stock for the purpose of stabilizing and providing liquidity to the capital markets. The Corporation has determined not to participate in the TARP.

Table of Contents

Item 1A. Risk Factors

Difficult market conditions and economic trends have adversely affected our industry and our business.

The capital markets continued to experience difficult conditions through 2008 and into 2009, producing uncertainty in the financial markets in general and a related general economic downturn. Dramatic declines in the housing market that resulted in decreasing home prices and increasing delinquencies and foreclosures negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many loans have declined and may continue to decline. These general downward economic trends, the reduced availability of commercial credit and increasing unemployment have all negatively impacted the credit performance of commercial and consumer credit and resulted in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. Also, our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. Business activity across a wide range of industries and regions is greatly reduced and local governments and many companies are in serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. A worsening of current conditions would likely exacerbate the adverse effects of these difficult market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience increases in foreclosures, delinquencies and customer bankruptcies.

Changes in interest rates could adversely affect income and financial condition.

The Corporation's income and cash flow depends to a great extent on the difference between the interest earned on loans and investment securities, and the interest paid on deposits and other borrowings. Interest rates are beyond the Corporation's control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits.

Changes in economic and political conditions could adversely affect the Corporation's earnings.

Our success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings. If during a period of reduced real estate values we are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition. The substantial majority of our loans are to individuals and businesses in Ohio. Consequently, further significant declines in the economy in Ohio could have a materially adverse effect on our financial condition and results of operations. It is uncertain when the negative credit trends in our market will reverse and, therefore, future earnings are susceptible to further declining credit conditions in the market in which we operate.

Table of Contents

Item 1A (Continued)

Strong competition within the market the Bank operates could reduce our ability to attract and retain business.

In our market, we encounter significant competition from banks, savings and loan associations, credit unions, mortgage banks and other financial service companies. As a result of their size and ability to achieve economies of scale, some of our competitors offer a broader range of products and services than we can offer. Our ability to maintain our history of strong financial performance and return on investment to shareholders will depend in part on our continued ability to compete successfully in our market. Financial performance and return on investment to shareholders will also depend on its ability to expand its scope of available financial services to its customers. In addition to other banks, competitors include securities dealers, brokers, investment advisors, and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial service providers.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to utilize alternative methods to complete financial transactions that historically have involved banks. For example, consumers can now maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

The preparation of our financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make significant estimates that affect the financial statements. One of our most critical estimates is the level of the allowance for loan losses. Due to the inherent nature of these estimates, we cannot provide absolute assurance that we will not be required to charge earnings for significant unexpected loan losses.

We maintain an allowance for loan losses that we believe is a reasonable estimate of known and inherent losses within the loan portfolio. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and these losses may exceed current estimates. We cannot fully predict the amount or timing of losses. Bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

Table of Contents

Item 1A (Continued)

We are exposed to operational risk.

Similar to any large organization, we are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and keep customers and can expose us to litigation and regulatory action.

Given the volume of transactions we process, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process our transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, could severely harm our business.

As part of our financial institution business, we collect, process and retain sensitive and confidential client and customer information on behalf of our subsidiaries and other third parties. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. If information security is breached, information can be lost or misappropriated, resulting in financial loss or costs to us or damages to others. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by us or by our vendors, could severely damage our reputation, expose us to the risks of litigation and liability or disrupt our operations and have a material adverse effect on our business.

Legislative or regulatory changes or actions, or significant litigation, could adversely impact us or the businesses in which we are engaged.

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds, and not to benefit our shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us or our ability to increase the value of our business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against us could cause us to devote significant time and resources to defending our business and may lead to penalties that materially affect us and our shareholders.

Table of Contents

Item 1A (Continued)

There can be no assurance that recent legislative and regulatory initiatives to address difficult market and economic conditions will stabilize the United States banking system and the enactment of these initiatives may significantly affect our financial condition, results of operation, liquidity or stock price.

In 2008 and continuing into 2009, governments, regulators and central banks in the United States and worldwide have taken numerous steps to increase liquidity and to restore investor confidence, but asset values have continued to decline and access to liquidity continues to be very limited. The U.S. Treasury has authority to purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions and their holding companies, under TARP. The purpose of TARP is to restore confidence and stability to the United States banking system and to encourage financial institutions to increase their lending to customers and to each other. The FDIC increased federal deposit insurance on most deposit accounts from \$100,000 to \$250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our Stock. Other actions by the U.S. Government and its agencies include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to stabilize the United States banking system. The regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

We may be a defendant from time to time in the future in a variety of litigation and other actions, which could have a material adverse effect on our financial condition and results of operation.

We and our subsidiaries may be involved from time to time in the future in a variety of litigation arising out of our business. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation exceed our insurance coverage, they could have a material adverse effect on our financial condition and results of operation. In addition, we may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms, if at all.

We extend credit to a variety of customers based on internally set standards and judgment. We manage the credit risk through a program of underwriting standards, the review of certain credit decisions and an on-going process of assessment of the quality of the credit already extended. Our credit standards and on-going process of credit assessment might not protect us from significant credit losses.

We take credit risk by virtue of making loans and leases, extending loan commitments and letters of credit and, to a lesser degree, purchasing non-governmental securities.

Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize in-market lending while avoiding highly leveraged transactions as well as excessive industry and other concentrations. Our credit administration function employs risk management techniques to ensure that loans and leases adhere to corporate policy and problem loans and leases are promptly identified. While these procedures are designed to provide us with the information needed to implement policy adjustments where necessary, and to take proactive corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk.

Table of Contents

Item 1A (Continued)

Future FDIC premiums could be substantially higher and would have an unfavorable effect on earnings.

Since January 1, 2007 our assessment for FDIC insurance has been reduced by a one-time credit. The credit will be exhausted in the first quarter of 2009 which could increase our future FDIC insurance assessment substantially. The FDIC also projects higher premiums to be necessary because the financial institution failures resulting from the depressed market conditions have depleted and may continue to deplete the deposit insurance fund and reduce its ratio of reserves to insured deposits. The increase may also include a one-time special emergency assessment of 10 to 20 basis points which will adversely affect our financial condition and results of operation.

Defaults by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as systemic risk and may adversely affect our business.

Item 1B. Unresolved Staff Comments

There are no matters of unresolved staff comments from the Commission staff.

Item 2. Properties

Farmers National Banc Corp. s Properties

The Farmers National Banc Corp. owns no property. Operations are conducted at 20 and 30 South Broad Street, Canfield, Ohio.

Bank Property

The Main Office is located at 20 & 30 S. Broad Street, Canfield, Ohio. The other locations of the Bank are:

Office Building	40 & 46 S. Broad St., Canfield, Ohio
Austintown Office	22 N. Niles-Canfield Rd., Youngstown, Ohio
Lake Milton Office	17817 Mahoning Avenue, Lake Milton, Ohio
Cornersburg Office	3619 S. Meridian Rd., Youngstown, Ohio
Colonial Plaza Office	401 E. Main St. Canfield, Ohio
Western Reserve Office	102 W. Western Reserve Rd., Youngstown, Ohio
Salem Office	1858 E. State Street, Salem, Ohio
Columbiana Office	340 State Rt. 14, Columbiana, Ohio
Leetonia Office	16 Walnut St., Leetonia, Ohio
Damascus Office	29053 State Rt. 62 Damascus, Ohio

Table of Contents

Item 2 (Continued)

Poland Office	106 McKinley Way West, Poland, Ohio
Niles Office	1 South Main Street, Niles, Ohio
Niles Drive Up	170 East State Street, Niles, Ohio
Girard Office	121 North State Street, Girard, Ohio
Eastwood Office	5845 Youngstown-Warren Rd, Niles, Ohio
Warren Office	2910 Youngstown-Warren Rd, Warren, Ohio
Mineral Ridge Office	3826 South Main Street, Mineral Ridge, Ohio
Niles Operation Center	51 South Main Street, Niles, Ohio

The bank owns all locations except the Colonial Plaza, which is leased.

Item 3. Legal Proceedings

In the opinion of management there are no outstanding legal actions that will have a material adverse effect on the Corporation's financial condition or results of operations.

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

There were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of 2008.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities

Purchases of equity securities by the issuer.

On June 10, 2008, The Corporation announced the adoption of a stock repurchase program that authorizes the re-purchase of up to 4.9% or approximately 638 thousand shares of its outstanding common stock in the open market or in privately negotiated transactions. This program expires in June 2009. The following table summarizes the treasury stock purchased by the issuer during the fourth quarter of 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
Oct. 1-31	26,443	\$ 6.32	26,443	575,749
Nov. 1-30	50,000	6.00	50,000	525,749
Dec. 1-31	0	0	0	525,749
TOTAL	76,443	\$ 6.11	76,443	525,749

Table of Contents

Item 6. Selected Financial Data

Information required by this section is incorporated by reference to the information appearing under the caption Selected Financial Data located on page 7 of the Corporation's Annual Report and is explained in the section Management Discussion and Analysis of Financial Condition and Results of Operations located on pages 9 through 17 of the Corporation's Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition

Information required by this section is incorporated by reference to the information appearing under the caption Management Discussion and Analysis of Financial Condition and Results of Operation located on pages 9 through 17 of the Corporation's Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this section is incorporated by reference to the information appearing under the caption Market Risk located on pages 11 through 12 of the Corporation's Annual Report.

Item 8. Financial Statements and Supplementary Financial Data

Information required by this section is incorporated by reference to the information located on pages 20 to 36 of the Corporation's Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During the fiscal years ended December 31, 2008 and December 31, 2007, there were no disagreements between the Corporation and Crowe Horwath LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to Crowe Horwath's satisfaction, would have caused Crowe Horwath to make reference to the subject matter of the disagreement in connection with its reports on the Corporation's consolidated financial statements for such periods.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective to ensure that the financial and nonfinancial information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act of 1934, including this annual report on Form 10-K for the period ended December 31, 2008, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's responsibilities related to establishing and maintaining effective disclosure controls and procedures include maintaining effective internal controls over financial reporting that are designed to produce reliable financial statements in accordance with accounting principles generally accepted in the United States. As disclosed in the Report on Management's Assessment of Internal Control Over Financial Reporting on page 18 of our 2008 Annual Report to Shareholders, management assessed the Corporation's system of internal control over financial reporting as of December 31, 2008, in relation to criteria for effective internal control over financial reporting as described in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

Item 9A (Continued)

Crowe Horwath LLP, the corporation's registered public accounting firm, has audited the Corporation's internal control over financial reporting as of December 31, 2008. The attestation report by Crowe Horwath is located on page 19 of our 2008 Annual Report to Shareholders.

There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation or material weaknesses in such internal controls requiring corrective actions. As a result, no corrective actions were taken.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to Directors and Corporate Governance is set forth in the registrant's definitive proxy statement, which will be used in connection with its annual meeting of shareholders which will be held April 23, 2009. The proxy statement is incorporated by reference.

Executive Officers of the Registrant

The names, ages and positions of the executive officers as of March 1, 2009

Name	Age	Position Held
Frank L. Paden	58	President and Secretary
Carl D. Culp	45	Executive Vice President and Treasurer
John S. Gulas	50	Chief Operating Officer
Donald F. Lukas	62	Senior Vice President

Officers are elected annually by the Board of Directors immediately following the annual meeting of shareholders.

The term of office for all the above executive officers is for the period ending with the next annual meeting.

During the January 2009 board meeting, John S. Gulas was elected as Chief Operating Officer COO of the Corporation by the Board of Directors. John has served as the COO of Farmers National Bank since July 2008.

Principal Occupation and Business Experience of Executive Officers

Mr. Frank L. Paden has served as President and Secretary since March 1996. Prior to that time he was Executive Vice President of the registrant since March 1995, was Executive Vice President of the Bank since March 1995 and has held various other executive positions with the Bank.

Mr. Carl D. Culp has served as Executive Vice President and Treasurer since March 1996. Prior to that time he was Controller of the registrant since November 1995 and was Controller of the Bank since November 1995.

Mr. Donald F. Lukas has served as Senior Vice President of the registrant since March 1996. Prior to that time, he was Vice President of the Bank since March 1987.

Compliance with Section 16(a) of the Securities Exchange Act

Information regarding this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

Table of Contents

Item 10 (Continued)

Code of Ethics

See Exhibit 14.

Nominating Committee

Information regarding this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

Identification of the Audit Committee

Information regarding this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

Audit Committee Financial Expert

The Board believes that Earl R. Scott and James R. Fisher qualify as Audit Committee Financial Experts as that term is defined by applicable SEC rules. In addition, the Board believes that Earl R. Scott and James R. Fisher are independent as that term is defined by applicable SEC rules.

Item 11. Executive Compensation

Information regarding this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*Securities Authorized for Issuance Under Equity Compensation Plans*

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	44,500	\$10.50/share	320,400

Information regarding the equity (stock-based) compensation plan is set forth in the registrant's annual report in Notes A and I in the Notes to Consolidated Financial Statements. This portion of the annual report is incorporated by reference.

Security Ownership of Management

Information relating to this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

Table of Contents

Item 13. Certain Relationships and Related Transactions and Director Independence

Information regarding this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

Item 14. Principal Accountant Fees and Services

Information regarding this item is set forth in the Corporation's definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)1. Financial Statements

Item 8., Financial Statements and Supplementary Data is set forth in the Corporation's 2008 Annual Report to Shareholders and is incorporated by reference in Part II of this report.

2. Financial Statement Schedules

No financial statement schedules are presented because they are not applicable.

3. Exhibits

The exhibits filed or incorporated by reference as a part of this report are listed in the Index of Exhibits, which appears at page 15 hereof and is incorporated herein by reference. No financial statement schedules are presented because they are not applicable.

(b) Exhibits

The exhibits filed or incorporated by reference as a part of this report are listed in the Index of Exhibits, which appears at page 15 hereof and is incorporated herein by reference.

(c) Financial Statement Schedules

No financial statement schedules are presented under this section because none are applicable.

Table of Contents

INDEX TO EXHIBITS

The following exhibits are filed or incorporated by reference as part of this report:

2. Not applicable.
- 3(i). The Articles of Incorporation, including amendments thereto for the Corporation. Incorporated by reference to Exhibit 4.1 to Farmers National Banc Corp s Form S-3 Registration Statement dated October 3, 2001 (File No. 0-12055).
- 3(ii). The Code of Regulations, including amendments thereto for the Corporation. Incorporated by reference to Exhibit 4.2 to Farmers National Banc Corp s Form S-3 Registration State- ment dated October 3, 2001 (File No. 0-12055).
4. Incorporated by reference to initial filing.
9. Not applicable.
- 10.1 Information regarding this item is set forth in the Corporation s definitive proxy statement, which will be used in connection with its annual meeting of shareholders to be held April 23, 2009. The proxy statement is incorporated by reference.
- 10.2 Employment Agreement with Frank L. Paden (as originally filed as Exhibit 10.1 to the Corporation s Form 8-K, filed on December 30, 2008.
- 10.3 Employment Agreement with Carl D. Culp (as originally filed as Exhibit 10.1 to the Corporation s Form 8-K, filed on December 30, 2008.
- 10.4 Employment Agreement with Mark L. Graham (as originally filed as Exhibit 10.1 to the Corporation s Form 8-K, filed on December 30, 2008.
11. Refer to Note O in the annual report incorporated by reference.
12. Not applicable.
13. Annual Report to security holders.
14. The Company has adopted a Code of Ethics that applies to the Chief Executive Officer and Chief Financial Officer and complies with the criteria provided in SEC rules. The Code of Ethics is available, free of charge, by calling the Bank s Corporate Services at 330-533-3341.
16. Not applicable.
18. Not applicable.
21. Farmers National Bank, Canfield, Ohio.
22. Not applicable.
- 23a. Consent of Crowe Horwath LLP

- 24. Not applicable.
- 31.a Certification of Chief Executive Officer (Filed herewith)
- 31.b Certification of Chief Financial Officer (Filed herewith)

Table of Contents

INDEX TO EXHIBITS (continued)

32.a 1350 Certification of Chief Executive Officer (Filed herewith)

32.b 1350 Certification of Chief Financial Officer (Filed herewith)

33. Not applicable

34. Not applicable

35. Not applicable

Copies of any exhibits will be furnished to shareholders upon written request. Request should be directed to Carl D. Culp, Executive Vice President, Farmers National Banc Corp., 20 S. Broad Street, Canfield, Ohio 44406.